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OVERSIGHT HEARING ON THE INTERNATIONAL MONETARY FUND LOAN TO EL SALVADOR

ORIGINAL

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE, INVESTMENT AND MONETARY POLICY

OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS HOUSE OF REPRESENTATIVES

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OVERSIGHT HEARING ON THE INTERNATIONAL MONETARY FUND LOAN TO EL SALVADOR

THURSDAY, AUGUST 12, 1982

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON INTERNATIONAL TRADE, INVESTMENT AND MONETARY POLICY, COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
Washington, D.C.

The subcommittee met, pursuant to call, at 9:30 a.m. in room 2220, Rayburn House Office Building; Hon. Stephen L. Neal (chairman of the subcommittee) presiding.

Present: Representatives Neal, Patterson, LaFalce, Lowry, Coyne, Leach, Hansen, and Carman.

Also present: Representative Oakar.

Chairman NEAL. The subcommittee will come to order at this time.

Today the subcommittee will hold an oversight hearing on a recent loan from the International Monetary Fund to El Salvador.

Our first witness will be Mr. Richard Erb, the U.S. Executive Director at the IMF. We will then hear from two private witnesses, Mr. Jim Morrell from the Center for International Policy, and former Ambassador Angier Biddle Duke, representing the Citizens Committee on the El Salvador Crisis.

It is not generally the practice of this subcommittee to hold hearings on particular IMF transactions. We have done so only once in the past, in the case of an IMF loan to India last year. In that instance, the U.S. Government abstained, indicating some serious reservations about the terms of the loan, and the subcommittee wanted to examine the reasons for the U.S. abstention.

The case before us today is quite different. The United States supported the IMF loan to El Salvador. On the face of it, this loan is no different from many others and would call for no special scrutiny on our part. But an IMF program in El Salvador cannot, under current conditions, be regarded as normal, routine business.

I have called this hearing to air some of the questions that have been raised about this loan and to make public the response of the administration. In my letter of invitation to the administration I listed four points on which this IMF loan might be criticized. They are, to quote from my letter:

First, while there is no specific legal requirement for the United States to condition its support for IMF loans on the human rights record of the borrower, various Members of Congress have urged

the IMF to be more sensitive to human rights abuses in countries requesting IMF support.

In view of the controversies surrounding El Salvador's record on human rights, this loan will undoubtedly be criticized on the grounds that it gives aid and comfort to gross violators of human rights.

Second, it will undoubtedly be difficult for El Salvador to improve the state of its economy in the midst of a civil war. Some critics of this loan argue that the IMF is quite unrealistic in expecting a balance-of-payments adjustment program to be carried out under these conditions. If there is no realistic chance for an adjustment program to succeed, indeed the IMF should not, by its own criteria, grant the loan.

Third, there is some concern that in recognition of the difficulties El Salvador faces, the adjustment program adopted requires very little adjustment. Moreover, its term is too short, only 1 year instead of the 3-year program that a country whose economy is in shambles would be expected to adopt.

Fourth and finally, we are interested in the prospects of parallel World Bank assistance to El Salvador. There are reports that the World Bank is too pessimistic about El Salvador's prospects to extend a "structural adjustment" loan under present conditions.

The sum of these concerns is that the IMF is granting "easy" money to a regime guilty of gross violations of human rights, with little or no realistic prospects for balance-of-payments adjustment over the near term of the loan.

Given the controversies that surround the U.S. bilateral aid program to El Salvador, it is imperative for us to put on the record the administration's answer to these points and to any additional questions members may want to pose.

We called this hearing to try to clear up some of the questions concerning these loans and this proposal. I would like to yield to any other members who might have opening statements.

Mr. Leach?

Mr. LEACH. No statement, Mr. Chairman.

Chairman NEAL. At this time we would like to hear from Mr. Richard Erb, U.S. Executive Director at the IMF. Mr. Erb has an appointment, so we will hear from him, question him and then hear from the other witnesses.

Please proceed as you will. Without objection, your entire statement will be put in the record at this point. You may summarize.

STATEMENT OF RICHARD D. ERB, U.S. EXECUTIVE DIRECTOR, INTERNATIONAL MONETARY FUND

Mr. ERB. Thank you, Mr. Chairman.

I would like to read the statement into the record. It is not too long. I would like to put out a full statement in these hearings.

I appreciate having the opportunity to appear before your subcommittee to discuss the standby arrangement with El Salvador which was approved by the IMF Executive Board on July 16. I will begin by providing background on El Salvador's economic situation and the developments which led to the standby arrangement.

During most of the last 30 years El Salvador recorded impressive economic gains. The economy grew at approximately 5 percent a year from 1950 to 1978, a rate of real growth which enabled the country to increase per capita income approximately 2 percent a year.

Low inflation, increased real wages, high levels of investment, and relatively small current account deficits were also general characteristics of El Salvador's economy during these years.

Since 1979 El Salvador has been racked by an armed conflict which has disrupted economic activity, weakened productive capacity, and undermined the confidence of investors, both domestic and foreign.

In addition, El Salvador's economic problems have been exacerbated by the oil price increases of 1979–80, the world economic slowdown, and falling commodity export prices. The year 1982 will probably mark the fourth consecutive year of decline in real gross domestic product, the rate of inflation will likely be on the order of 15 percent during 1982, and the balance-of-payments situation is critical.

In the context of these developments, the Salvadoran authorities approached the IMF for use of IMF resources. Over the course of 1980 and 1981 El Salvador used approximately SDR 71 million (approximately $91 million) worth of IMF resources.

SDR 10.8 million ($14 million) of these drawings were associated with a "first credit tranche" standby arrangement in mid-1980. Under the IMF's policies, such "first credit tranche" arrangements involve a relatively small amount of IMF resources and a moderate degree of IMF conditionality.

While they require certain policy measures on the part of the borrowing country, such requirements generally do not involve specific quantitative criteria, or performance objectives, such as are required in upper credit tranche standby arrangements. The adjustment program did not succeed, in part because of limitations placed on coffee exports by the International Coffee Agreement in which El Salvador participates.

It is against this background that discussions began in July 1981 between the IMF staff and Salvadoran authorities concerning the possibility of a new economic stabilization program supported by IMF resources.

Agreement between the two parties as reached on the elements of a new standby arrangement were agreed in January/February 1982. The standby request was held in abeyance, however, until after the March 1982 elections. Following the change in government, the fund discussed with officials from the new government whether they intended to maintain the economic policy course already established.

Based on assurances from the new government that it intended to follow appropriate economic policies, the fund management decided to submit the financial arrangement to the Executive Board.

On July 16 the Board considered and approved the arrangement in an amount of SDR 43 million—approximately $47 million. In addition, the Board considered a drawing request of SDR 32.25 million—approximately $35 million—under the IMF's compensatory financing facility, a facility designed to provide relatively automatic

compensation to IMF members for shortfalls in their export earnings due to circumstances largely beyond the control of the affected government.

In the case of El Salvador, the export shortfall was largely due to a decline in the international price of coffee. Because of the relatively automatic nature of CFF facilities, I will limit my discussion to the standby arrangement.

The United States supported the standby arrangement, reflecting our judgment that in spite of the many uncertainties surrounding El Salvador's economic situation, the policies outlined in the program provide a basis for arresting the economic decline and fostering economic conditions which could move the external sector toward a more sustainable payments position over time.

As in the case of some other countries which have or are negotiating standby arrangements, such prospects are dependent upon adequate levels of foreign assistance and no further substantial deterioration in civil order. Before discussing the substance of the program, however, I would like to comment on the approach which the fund has taken toward this particular standby.

The IMF has, in our view, been cautious and prudent in every respect of its handling of this program. The roughly 5-month period between the time agreement was reached between the fund staff and the Government of El Salvador on the program early this year and its submission to the Executive Board largely reflected uncertainties regarding the outcome of the election and whether a government would be in place that was genuinely committed to implement the agreed policies.

Following the election, fund management was careful to assure itself that the new government was committed to pursuing the degree of economic policy adjustments.

During this period I was personally made aware through U.S. diplomatic channels that the Salvadoran authorities desired the Fund management to submit promptly the arrangement to the Board. This was even as early as prior to the elections in March of 1982.

I responded that we fully supported the Fund management's cautious handling of the proposed arrangement. Given the many uncertainties, I believed that the Fund management was justified in moving carefully.

Before approving a standby arrangement, the fund must be confident not only that a government is committed to pursuing the necessary adjustment policies, but that there are reasonable prospects for implementation and timely repayment of the fund's financing. It was only after it was satisfied on these points that the fund management brought this program to the board.

The prudence with which the fund has approached this program also is reflected in the amount of resources being made available to El Salvador and in the phasing of those amounts. The SDR 43 million program constitutes only 67 percent of El Salvador's IMF quota. A member's quota determines, inter alia, its access to IMF sources.

Under current IMF policies of enlarged access to IMF resources, members may, in certain circumstances, draw resources up to a

maximum of 150 percent of quota annually and up to a total cumulative maximum of 450 percent of quota over a 3-year period.

The SDR 43 million—or 67 percent of quota—provided for under El Salvador's program is obviously much less than the maximum amounts available under the fund's policies of expanded access. I would also say that it is less than what has been the range of the size of programs during the last year, which have ranged from 100 percent to 150 percent of quota.

Management simply did not feel that, given the circumstances, larger amounts were warranted at this time, a view with which I also agree given the probable length of the adjustment period.

Additional amounts of IMF resources for El Salvador will clearly be dependent upon performance under the current arrangement and the willingness and ability of the Government to continue to pursue the necessary economic adjustment policies in the future.

This total of SDR 43 million is not made available to El Salvador at one time. Under the terms and conditions of the standby arrangement, portions of the total SDR 43 million are to be made available on a quarterly basis only if El Salvador has satisfied all performance criteria specified in the program at the time of each proposed drawing.

In my view, a vital and positive feature of this arrangement is that it requires a major review of the economy at the end of 1982 and a setting of policies for at least the first 6 months of 1983. Until that review is completed and approved by the Board, and assuming El Salvador's policies remain on course through the end of 1982, El Salvador will be limited to drawings of only SDR 27 million.

I would like to briefly summarize the policies adopted by the Government of El Salvador for 1982 and endorsed by the fund in the standby arrangement.

EXCHANGE RATE POLICY

The Government has begun to implement a degree of exchange rate flexibility by authorizing the use of a parallel exchange market—in which the exchange rate moves freely in response to supply and demand forces—for an increasing amount of transactions.

In my judgment, this rate, which is currently around 3.5 colons to the dollar, reflects more closely the appropriate exchange rate for El Salvador than the official rate which is pegged to the U.S. dollar at 2.5 colons per dollar.

Further shifts of transactions into the free market may occur during the months ahead, shifts which should facilitate the adjustment process. In addition, the Central Bank is now authorized to permit commercial banks to operate in the parallel market, a further step toward a more efficient exchange market operation.

MONETARY POLICY

A complex system of interest rates was simplified, and the key reference rate for interest rates was raised from 10 percent to 12.5 percent, making interest rates more reflective of the rate of inflation.

Interest rates are being kept under close review. In addition, the authorities adopted a credit program for the Central Bank featuring a significant deceleration in the rate of expansion of its net domestic assets and a more balanced distribution of credit between the private and public sectors, there again in favor of the private sector.

WAGE AND PRICING POLICIES

Wage increases of up to 10 percent were allowed as of February 1982, the first adjustment permitted since the institution of a freeze in January 1981. These increases were, however, subject to the condition that they be accommodated within the existing budgetary limits.

Corrective upward adjustments of certain controlled prices are being made to allow market forces to have a greater influence on future supply and demand decisions. The local price of sugar, for example, was raised approximately 20 percent in early 1982. A comprehensive review of price control policy is underway to determine what further adjustments would be appropriate.

PUBLIC FINANCE

Given the large budget deficit—this is on the central government side—amounting to 7 percent of GDP, the authorities are concentrating on reducing the growth of expenditures.

As I have said, we attach a great deal of importance to the review of El Salvador's economic policies at the end of 1982. We will be looking for the Fund staff to make an effort not only to analyze the economy and evaluate the Government's policies for 1983, but also to provide some assessment of El Salvador's adjustment requirements within a medium-term context.

In this connection, we expect the Fund staff to work closely with the World Bank staff when conducting its analysis. Whether the Fund staff will propose a continuation of the current arrangement for another 6 months or propose a new 1-year arrangement or propose a multiyear arrangement is a judgment for the staff and the management of the Fund to make.

Failure of the Government to adopt appropriate economic adjustment policies for 1983, of course, would result in a suspension of the current financial arrangement.

In my judgment, the policies adopted in 1982 can only be viewed as a first step, but they should be viewed as an important first step and taken as evidence of the Government's ability to formulate and implement an economic adjustment program.

Further economic policy adjustments will be necessary over the coming years and the magnitude and nature of these adjustments will depend importantly not only on internal developments, but also on world economic conditions and foreign financial flows from commercial as well as foreign aid sources.

In light of the severity of El Salvador's economic and financial problems—and the unfavorable world economic environment—it is not realistic to expect an early or quick restoration of El Salvador's economy to its pre-1979 levels of performance.

Your invitation to me, Mr. Chairman, also included a question concerning the prospects of World Bank participation in assistance to El Salvador. We understand that the last World Bank loan to El Salvador was in June 1979, and that although the World Bank had earlier suspended disbursements on its outstanding loans to El Salvador because of security considerations, visits by World Bank personnel to the country have resumed and disbursements are now proceeding normally.

There are, in fact, four new loans under consideration which will be discussed with the Government of El Salvador within the context of a review of development priorities. World Bank and Salvadoran Government agreement on medium- to long-range development priorities, I understand, will be a prerequisite to consideration of program-type assistance from the Bank, such as a structural adjustment loan.

There are those who have questioned the overall appropriateness of the IMF's involvement in El Salvador, a country torn by strife and disorder. The problems which El Salvador has been experiencing—both economic and political—cannot be viewed in isolation. Neither can the IMF's role in helping El Salvador deal with its economic difficulties.

In addition to the external developments to which I have previously referred, El Salvador has been affected by other developments in the region and, in turn, developments within El Salvador have had a negative impact on foreign investor confidence in the region.

Such developments are obviously not limited to the Central American region. In various regions throughout the world, we find countries experiencing political instability and, in some cases, violence and armed conflict. In such environments, IMF member governments are often confronted with serious balance-of-payments problems and thus request IMF assistance.

Determining the most appropriate and effective means of responding to the countries faced with the problems similar to those in El Salvador has not always been an easy task for the IMF. In many instances where there is political and economic turmoil, it would be easier for the IMF to stay out.

Where members request help, however, the IMF has an obligation to respond to such requests, to the extent appropriate within the framework of its internationally agreed policies and objectives.

The IMF has a positive contribution to make by assisting a member country formulate and implement the kinds of policies which can, other factors permitting, eventually lead to stable economic growth and a sound external position.

The IMF has a range of means of responding to member needs. Through its surveillance and consultations procedures—an integral part of the Fund's operations—the IMF can perform a useful function in helping member countries identify problem areas and in suggesting means of dealing with them.

Through its technical assistance and resident representative programs, the Fund can provide economic expertise to member countries at their request. Where a country is faced with a balance-of-payments need and willing to pursue the necessary adjustment

policies, the Fund stands ready to provide temporary balance-of-payments support.

A review of the fund's involvement in other Central American countries reflects the range of the Fund's activities. In Costa Rica and Honduras, for example, discussions are underway concerning the possibility of standby arrangements. In Guatemala, a first credit tranche standby arrangement is currently in place. In Belize, technical assistance in the fiscal, central banking and statistical areas has been provided. In other countries, the Fund remains in communication through its normal and special consultations procedures and stands ready to respond to the requests of governments.

Mr. Chairman, your letter raised a number of questions concerning the relationship between the standby arrangement and El Salvador's human rights record. First, let me reiterate a few points made by Assistant Secretary of State Enders before the House Foreign Affairs Committee on July 29.

This administration continues to be concerned about the human rights situation in El Salvador. Serious violations of human rights continue. We believe that progress has been made, however, and all available evidence suggests that the most serious violations of human rights are a slow downward trend.

Our concern over the human rights situation in El Salvador should not be relaxed. We must, however, maintain balance and judgment in the selection of methods available to us in pursuing human rights objectives to insure that we do not undermine other critical elements of U.S. policy.

In this regard, the IMF is a cornerstone of a U.S. international economic policy, providing the institutional framework for world monetary cooperation, finance, and trade that is vital to our economic health and prosperity. A strong and effective IMF is critical to our effort to assure world monetary and financial stability, and to provide the broad cooperative framework we will need to overcome fundamental economic difficulties.

Decisions in the IMF are taken on the basis of economic and financial criteria. The apolitical nature of the institution has long been a key to its ability to fulfill effectively its functions in the international monetary system and, consequently, its ability to serve U.S. interests.

We believe it would be a serious mistake to politicize the institution by conditioning U.S. support for IMF loans on human rights considerations. The IMF's membership of 146 countries spans a broad political spectrum.

Despite the conflicts of a political, social, and military nature that have arisen within and between IMF members from time to time over the years, IMF members have carefully respected the fact that it is an economic institution designed to pursue broad economic objectives which we all share.

Any introduction of political considerations by the United States into decisions on IMF financing could lead to similar steps by other countries and could ultimately undermine the effectiveness of the IMF in performing its critical international financial and monetary role.

On at least two occasions in recent years the Congress has considered the question of whether human rights considerations

should be taken into account in determining the U.S. position in any proposed IMF credit arrangements, and on both occasions Congress concluded that such an approach would not be in our interests.

We would hope, Mr. Chairman, that the members of this subcommittee would continue to hold that view, for we firmly and deeply believe that an effort to inject such considerations into the IMF decisionmaking, however well-intentioned, could eventually have a seriously negative effect on the ability of the IMF to serve U.S. interests.

In addition, we believe that efforts to pursue our human rights objectives by conditioning IMF financing on human rights considerations could in many cases be counterproductive to those very objectives.

In the case of El Salvador, for example, we believe that a stabilization of the economic situation—toward which this standby arrangement is striving—is a fundamental prerequisite to improvement in the resource base needed to meet the basic needs of the Salvadoran population. Such an improvement could, in turn, help provide the kind of environment conducive to a continued improvement in the human rights situation in that country.

In conclusion, Mr. Chairman, our support for El Salvador's standby arrangement with the IMF was based on a number of considerations: The prudence, caution, and realism which had characterized the Fund management's approach to the program; the willingness and ability of the Salvadoran authorities to implement a number of policy measures, including those specified as performance targets during 1982; the relatively small size of the program itself; and our ability to receive in the Executive Board a firm commitment for an extensive review of the program at the end of 1982.

We do not underestimate the difficulties which the Salvadoran authorities face in restoring economic stability. Nevertheless, we do believe that this program has a reasonable chance of success and merits support.

Chairman NEAL. Thank you, Mr. Erb.

I would like to yield at this time to Mr. Patterson for an opening statement.

Mr. PATTERSON. Thank you, Mr. Chairman. I appreciate it. I wish to apologize to my colleagues and Mr. Erb for being here a little late. I had a meeting downtown at the White House.

I am sitting on the right side of the aisle for that too, aren't I? I belong over there, I have been advised.

I think——

Chairman NEAL. Did he convince you?

Mr. PATTERSON. This is a timely hearing. I am very appreciative of the chairman for holding it. I think the recent approval of the funding by the IMF of a standby loan to El Salvador raises several very important questions to Congress.

Critics of this standby loan for El Salvador are arguing that this program fails to meet even the routine criteria of the IMF and we will be asking questions in regard to that. They argue that the Reagan administration, acting out of political motives, has pressured the IMF to approve the loan. Moreover, the administration has allegedly been applying pressure on the IMF for some time,

often against the better judgment of the IMF staff, to increase lending to El Salvador.

Perhaps no international institution is as important to the United States as the IMF. It performs essential functions in facilitating international monetary cooperation, promoting an environment of international financial stability, and maintaining an open world trading system.

It would be a grave mistake, I think, for the United States to distort the basic purposes of the IMF in the pursuit of the short-term political purpose.

It is proper that this subcommittee examine whether the IMF standby loan to El Salvador meets the normal technical criteria. The IMF articles of agreement provide that the fund resources should be used to help countries, and I quote:

> " " " to correct maladjustments in their balance of payments and to shorten the duration and lessen the degree of disequilibrium in the international balance of payments of members.

I am concerned that the El Salvador standby does not meet this essential criteria. The ratio of the current account deficit to GNP is actually projected to increase in 1982.

In 1981 the ratio was over 8 percent. Export volume is projected to actually decrease while imports are to raise. These adverse developments do not seem to be consistent with the establishing of a sustainable balance-of-payments situation.

Similarly, the standby will tolerate the continuation of a very large fiscal deficit. The standby fails to call for an increase in taxation as might normally be expected in such circumstances.

I might add we are facing a tax increase very soon here, and that the Salvadoran deficit, as I read it, if you compare it to GNP, is many times our deficit.

Rather than seeking to close the balance of payments and fiscal deficits, El Salvador is to rely on rising levels of official aid. External financing is to substitute for adjustment.

It seems odd for an administration that has been urging tighter standbys and more rapid adjustment to be supporting this program. The subcommittee, I think, should consider whether this standby will help El Salvador against its accounts or whether the IMF loan is merely concessional aid.

If the IMF is being converted into a funnel for concessional aid, the Congress must be concerned.

First, the basic purposes of the IMF would be violated.

Second, it would appear the administration was using the IMF as an avenue for funneling aid to El Salvador without approval of the U.S. Congress.

Finally, I am concerned that the 1-year standby does not seem to lay the foundation for future growth. It lacks a medium-term perspective that might provide general guidelines for future development projects.

External donors, both bilateral and multilateral, do not have a framework within which to plan their programs.

Again, let me restate my opinion that these hearings are important and timely. Public airing of the issues can only serve to strengthen the IMF.

I want to thank the cochairman of the subcommittee, Mr. Neal, and ask unanimous consent that my opening statement be inserted in the record immediately preceding Mr. Erb's testimony.

Chairman NEAL. Without objection, so ordered.

We have a second bell for a vote. We will break for a few minutes, vote, and return for questioning.

[Recess.]

Chairman NEAL. The subcommittee will reconvene. I apologize for bring late; I was waylaid by the majority leader for a moment.

We appreciate your testimony, Mr. Erb. I would like to yield to Mr. Lowry for questions.

Mr. LOWRY. Thank you, Mr. Chairman.

Thank you, Mr. Erb. Excellent testimony.

I am concerned about where the income will really come from for El Salvador in the foreseeable future, and is it really possible that what is happening is that U.S. foreign aid has become a very important source of El Salvador's income. Are we not just sending U.S. foreign aid, having IMF loans, as aid for its economy? Are we not just in a circle going around? That is one question I would like you to answer.

The second question is, What balance of payments will be made by the Central Bank? Is it possible these balance of payments will be being made for military goods purchases?

Are these payments being made—will these be made on debts owing—public debts being debts of the Government, or will these be debts of private corporations, of private investors?

If you could kind of answer those three general questions, I would appreciate it.

Mr. ERB. Let me take your first question, the question of whether we are going around in a circle that will be never ending. As I look to the future, the key over the medium-term period—a 2- to 3-year period—within El Salvador will be whether internal political stability returns.

Another element of that medium-term outlook will be restoration of economic growth in the world economy.

A third element will be increases in or a return to more normal levels of commodity prices.

In the case of El Salvador, that commodity is coffee. Each one of those elements involves uncertainties. I think we can be confident that looking out to the medium term, world economic growth will resume at some point in the next 2 years or so; at some point there will be a rebound in the international coffee markets.

Both of those will go a long way to strengthening El Salvador's balance-of-payments position. Obviously the restoration of political stability within the country is going to be necessary for longer term growth.

The IMF, when it evaluates an economy and looks out over the short run and then over the medium term, must make judgments about all of these types of uncertainties and also must make judgments about prospective aid flows, whether they be from the United States or other countries.

This is something they must do in every program.

In effect, the answer to your question will depend in part how the Congress acts in the current period and in the future with respect to aid flows.

If the Congress decides to reduce aid flows to El Salvador, in effect that becomes a given and the Fund makes its evaluations and adjustments on the kind of changes in the economy that will be consistent with lower aid flows.

That will, in effect, influence the required course for fiscal policy and monetary policy and other policies within El Salvador.

In a way it is an iterative process that we have to go through. You make your decisions in part on the variety of factors including the economic health of the economy; the Fund has to make its own decisions on the basis of judgments about how aid flows will come from a variety of sources.

At the coming midterm review, for example, which comes at the end of 1982, one of the elements of judgment that the fund staff will have to make is what will be the future course of aid flows from the United States as well as from other donors.

I would hope at that point the current legislation will be resolved and they might have a firmer judgment on what future aid flows will be to El Salvador. Whatever those aid flows may be, whatever judgments are made about the world economy, about coffee prices and so on, are in fact going to determine the magnitude of adjustment measures that El Salvador is going to have to undertake in 1983, 1984, and beyond, in order to return to a sustainable balance-of-payments situation.

Mr. LOWRY. Is the El Salvador present economic situation such that if there was a significant cutback in the U.S. aid flow, that then the policies on which the IMF loans are based would be changed?

Mr. ERB. If there were a major cutback in U.S. aid flows from recent levels, yes, that would have to be taken into account in any formulation of future economic policies in El Salvador.

Mr. LOWRY. Because at this time, at least, U.S. aid flows is quite a significant portion of the actual income of the economy of El Salvador?

Mr. ERB. That is right.

Mr. LOWRY. This is true, is it not?

Mr. ERB. That is right.

Mr. LOWRY. Thank you.

Mr. ERB. On your other questions, with respect to the—whether specific IMF money would be used for military purposes or whether IMF money would be flowing to pay off certain kinds of debts, the IMF, in its evaluations of economies and in its approach to lending looks at macroperformance criteria.

If, for example, a government or part of a country's economic problem is caused by a large fiscal deficit, it will be advising the country, it will be encouraging the country to reduce that fiscal deficit. It is then up to the country to make a decision as to how to go about doing it.

Should it raise taxes? Should it cut back on expenditures? What expenditures should be cut?

Those are the kinds of micropolicy decisions which the Fund leaves to the individual country to make as long as it is moving in

the direction in terms of the macro-outcome of the deficit or the total level of expenditures that is necessary for economic adjustment.

Mr. LOWRY. Is it possible those dollars used for the balance-of-payments problem are used to pay for the purchase of military goods? I am not saying it is. That is a real question.

Mr. ERB. The IMF resources, to a large extent, will be used to strengthen the reserve position of the central bank.

The question you are asking though, money is obviously fungible. Does money from one source go to that source? That is an impossible question to answer.

As I say, the emphasis in the Fund programs is on the macro-levels.

Mr. LOWRY. So there are no conditions placed upon the loan? The Government could make the decision to use that however they wanted?

Mr. ERB. That is right, as long as they meet macroperformance conditions.

Mr. LOWRY. Thank you. Thank you, Mr. Chairman.

Chairman NEAL. Mr. Patterson?

Mr. PATTERSON. No questions, Mr. Chairman.

Chairman NEAL. Ms. Oakar?

Ms. OAKAR. Thank you, Mr. Chairman.

First of all, I do want to thank you for holding this hearing. Thank you for the courtesy to sit with your distinguished subcommittee upon which I have served several times.

I do have some questions for Mr. Erb. I received a copy of the minutes of the meeting in which you supported the questionable loan to El Salvador. Quite honestly, I do support our country's participation in the IMF program in every way, shape, and form.

I do think that the best way to serve the human needs of the people in that country is through economic reform. However, I also believe that for the sake of objectivity and for the sake of the integrity of the bank, we really must relate to certain circumstances and data that is provided.

In reading the minutes, which I would like to submit for the record, let me direct you to page 4.

Mr. Polak points out, it says, "The staff says it is unable to provide its own estimate because it cannot assess the effect that any future civil disturbances would have on El Salvador's future exports."

He goes on to say, "I regret that the staff wants to come to the view that it could not in good conscience make an export projection that supported the case."

Chairman NEAL. May I interrupt you for a moment? We have a problem. Perhaps I should have announced it earlier. Someone, through their own means, has gotten hold of some minutes of the meeting and made them public. It would be in violation of the rules of the House for us to enter any of that confidential data into the official record of the House.

We can in no way condone nor approve of any member of the executive branch of this Government releasing confidential data.

Ms. OAKAR. I understand.

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Chairman NEAL. I wanted to make the announcement. We had been led to believe one of the witnesses was going to ask that some of this data be entered into the record. I was planning to make the point at that time. I will make it now.

We will not entertain any motion that any confidential data be entered into the official record of this hearing.

Obviously, we cannot control, at this point, the fact someone may have gotten their hands on some confidential information.

We can't make any judgment on what the person might want to say based on that information or other information that person may have, but the data, the confidential information itself cannot be entered into the record of the hearing.

Ms. OAKAR. I will apologize to the Chair and ask unanimous consent that my prior remarks be struck from the record.

Chairman NEAL. Without objection, so ordered.

Ms. OAKAR. I was not aware of this.

Chairman NEAL. I know you were not.

Mr. PATTERSON. I ask unanimous consent that you get any additional time, but I am sort of with you. I know the chairman is correct in his statement, but I want to note that in California we have the Brown Act, and that applies to any public meeting wherever you have a public body serving a purpose, wherever they have such a meeting they keep minutes, and those minutes are part of the public record.

I wanted to note that I would agree that we are bound by certain rules. I would question how much ought to be classified. I know there are certain classifications that we have to be concerned about.

Frankly, I strenuously object to public bodies having not having minutes. There are some like DIDC which don't keep minutes.

I think they should all keep minutes. I think those minutes should be public. Only portions of minutes that are actually endangering national security ought to be classified.

I think it is somewhat ridiculous that these IMF documents are classified. We are bound, as the chairman stated.

Chairman NEAL. I thank the gentleman. I am inclined to agree with you.

I think the Government is inclined—in fact I think there is a disturbing trend in this particular administration toward classifying more and more data, data that should not be classified; but I think we will have to fight that battle on another front.

Mr. PATTERSON. I agree, Mr. Chairman.

Chairman NEAL. And at another time.

At this point we are bound by the rules that do not allow us to accept any classified information, nor do I think it would be proper.

I have to say on behalf of the IMF, I frankly do understand why their discussions, just like those of, say, the Open Market Committee of the Federal Reserve need to be kept confidential.

There are a number of reasons for that. At least for a certain period of time.

Again, that is another subject. Perhaps we should get into that at another time.

Mr. PATTERSON. I couldn't pass up the opportunity, Mr. Chairman.

Ms. OAKAR. Mr. Chairman, I was not aware those minutes were marked classified. When they were given to me with the note, frankly—they are not marked classified in any way, shape, or form.

I respect the Chair's decision. I certainly agree with it. Let me just ask a few questions.

Chairman NEAL. Please proceed.

Ms. OAKAR. Maybe I can ask Mr. Erb why in contrast to some of the other members of the Board who had concerns about the objectivity of the Bank and indeed the future integrity of the Bank and accused the United States of acting politically as opposed to objectively, what your rationale was for the vote?

I know that you have some testimony, but in terms of those kinds of remarks and concerns that were put forward, why did the United States push for this knowing that some members really questioned the sovereignty and integrity of the Bank in and of itself?

Mr. ERB. You have put a question to me which allows me to address the question you were specifically trying to raise by citing the minutes.

I am pleased to be able to do that because the minutes that you referred to were minutes of a discussion from last year, July of 1981.

It was on a compensatory financing facility drawing, a 50 percent drawing under the compensatory financing facility last year.

I did not discuss that in my testimony because that—the subject of my testimony was the compensatory financing facility decision and the standby arrangement approved in July of this year.

But the two are in a sense related and the fact that these confidential IMF documents have been circulated in public and I think—I looked at Mr. Morrell's testimony—he will be raising some points you touched on in your question, and I would like to answer them.

The discussion last year at the Board in July of 1981 was on a compensatory financing facility request for which the Fund staff did not make a forecast for the 2 years beyond the year in which there is an export shortfall.

Under the compensatory financing facility—and it is complicated—they have a complicated formula on which they compute an export shortfall, on which they look at the year in which there has been a decline in exports, and they look at the 2 previous years, and they make forecasts about the 2 following years.

If, under the compensatory financing facility, the shortfall in exports is beyond the control—or largely beyond the control of the government, then the country has almost automatic right to draw under the compensatory financing facility up to at least 50 percent.

In the case of the compensatory financing facility request, at that time 90 pecent—as I recall in my own calculations at the time of the discussion—90 percent of the decline in exports in the shortfall year for that compensatory financing facility request was due to a decline in the price level of coffee and volume exports of coffee.

Let me state one more thing:

The reason for 90 percent of the decline being due to the developments in the coffee market is that coffee dominates El Salvador's exports. They export some cotton and sugar among other commodities, but they are a very small percentage of the total exports.

In that export shortfall, there were some reductions in cotton exports as well as sugar exports. Now, the reductions in the cotton exports and the sugar exports were partly related to the internal civil disorder and it was also partly related to the agrarian reform that had been undertaken in the previous years.

As I said, 90 percent of the shortfall was due to the decline in coffee prices and coffee volume, which was due to world market conditions and nothing related to El Salvador.

Even during the period of 2 to 3 years of internal instability, coffee production and coffee export volume was not interfered with by that internal instability.

A decision by the staff—and I argued this—a decision by the staff that it could not forecast the 2 outyears, or if one were to forecast further declines in coffee exports because of internal civil disorder in effect would be a political forecast that there would be a further deterioration significant enough to then begin affecting those sectors—the coffee sector being the main one—that had not been affected significantly by civil disorder.

So it came down to a question of whether members of the Executive Board were willing to forecast whether there was going to be a further increase in civil disorder and thus forecast that there would be a--that that would have a negative impact on coffee or whether board members were going to assume that conditions simply remained as they had been, which was a state of civil disorder that had not worsened, in which case the export shortfall would be justified because it was a case largely beyond the control of the government.

It is something as we look back—and a year has gone by now since that discussion in the Executive Board. In the more recent decision on the second 50 percent of the compensatory financing drawing and the standby, the staff, in its analysis, looked back at its earlier calculation and with new data for 1 of the out years of that drawing from last year, showed that the actual export shortfall was larger than the drawing that El Salvador made under the compensatory financing facility a year ago.

Those of us within the board who were willing to support the compensatory financing facility decision at that time—because we were not forecasting a further deterioration in the political situation of El Salvador—I think were justified on the basis of the outcome.

Ms. OAKAR. If I could just ask one more question, with the indulgence of the Chair, there are two parts to it.

No. 1, is it not true that in this case you pushed for a vote with very little data from the staff? You have given a very interesting explanation. It is nice that things worked out, if they did in fact work out.

But the fact is, you had very little data upon which to act. It was not provided.

No. 2, how do you see your role in voting as our representative? Do you see your role in voting in terms of what is best for the integrity of the bank, or do you take into consideration political considerations of this country in terms of its attitude toward the country that you are affecting?

Mr. ERB. Let me answer the question in two ways.

First of all, we did not press the Fund either at that time or in the current period to in any way bring the program to the Board or accelerate consideration of the program.

I can state that categorically.

Second, I have very clear guidance from the Under Secretary for Monetary Affairs and the Secretary of the Treasury on how to approach IMF programs.

Quite simply, Don Regan sees the institution as an international monetary institution. He feels strongly we should make our decisions on these programs on the basis of the economics and the financial aspects of the program.

I have followed that practice. The Treasury Department has followed that guidance during the past year. Indeed, it is a practice that the Treasury has followed in the past.

Let me say again, the guidance from Secretary Regan is very strong on this front. We have taken some tough positions at the Board on a whole array of financial programs in the Fund. We have done this in countries where we have very good political relations, knowing full well that the country was not going to be happy at all with the position that we took in the Fund on the program.

As I stated at that meeting last year in July, since it was, I recall, my second Board appearance since I had only been confirmed by the Congress July 18, and this came 7 or 8 days later, I took that opportunity to make that statement, that we were going to be looking at IMF financial programs on the basis of the economics and financial aspects of programs.

Quite frankly, prior to the discussion of that program at the Board, a number of Directors had talked to me about it and asked me the very same question you are asking me: Did the United States press the Fund management to bring that compensatory financing facility to the Board?

As I said at the Board discussion of that day, I said no, we had not. I also said that I was pleased that they were so direct with me in asking me that type of question.

I could, without any qualification, respond to them no, we had not pressed to have that compensatory financing facility request brought to the Board. Nor did we press them to bring this year's compensatory facility drawing to the Board.

Ms. OAKAR. Normally it would not have been brought up since the staff did not recommend it. This is the exception that took place there. That is in the minutes also.

Mr. ERB. You are right. That is why members raised the questions with me, also because obviously a good deal of our foreign policy attention had focused on the Central American Region and El Salvador in particular. That is why I took the opportunity at that time to clear the air.

Ms. OAKAR. Thank you, Mr. Chairman.

Chairman NEAL. I thank the distinguished gentlewoman for going out of her way to take the time to participate in these hearings.

Mr. Patterson?

Mr. PATTERSON. I was pleased to hear you say Don Regan's strong support of this is from an institutional financial viewpoint because I am certain the Secretary has and certainly the Under Secretary, Dr. Sprinkel, has made it very clear there will be conditionality when there is support by the United States for certain international assistance.

But this very loan appears to be one that kind of goes around the standards that the IMF has.

Let me try to focus at least on a couple of points on the technical side.

The first, the IMF program, allows a two-tiered exchange rate regime, does not require devaluation of the official rate even though the Salvadoran colon is clearly overvalued.

I think the parallel rate is above the 3.5-percent level in your testimony?

Mr. ERB. Yes, I cite that.

Mr. PATTERSON. Second, the domestic interest rates remain lower than the rate of inflation. That doesn't make sense. Most people don't lend money out for less than the inflation rate. I wish they did in our country.

Therefore, it remains in a negative, in real terms.

How do you justify these departures from what is normal IMF practice and apparently where it appears that the staff—and I don't want to go into confidential documents, but it appears that we pressed for the loan in some fashion.

In other words, here are the standards. You are stating the Secretary and the Under Secretary really believe in these standards. Yet somehow it doesn't fit the IMF standards, at least in those two categories and maybe others.

Can you explain that?

Mr. ERB. Well, at the most general level, it was submitted to—this program was submitted to the Board and this program was approved by the Board.

The specific questions that you raise on whether a two-tiered exchange rate violates the standards of the Fund or whether it is appropriate having an interest rate, a real interest rate that is negative—because the nominal interest rate is below inflation rates—are two areas in which there is a great deal of discussion at the Board.

It is not a rigid rule of the IMF that there be only a single exchange rate. There are many countries that have dual exchange rates. There are countries in which we have had programs in the past where there has been a dual exchange rate.

Second, there is not a rigid criteria that there should be a positive real interest rate or that nominal interest rates should be above the inflation rate.

I happen to be one of the members of the Board who argues in most of these programs that where the official exchange rate is clearly out of line with the market rate that one of the objectives

of the program ought to be to bring the official rate in line with the market rate.

One of the points that we made in commenting on this program is that one of the positive features of the program was that they did allow the establishment formally of this parallel market-oriented exchange rate and that they have moved more transactions into that market.

In my judgment an element of any future adjustment program should be further movement of transactions into the parallel market for transactions.

Other directors would disagree with that and they would disagree with that judgment on analytical grounds. However, it is the general approach of the Fund to move a country toward a market exchange rate. That is what it attempts to do in every country in which it has a program and that is a direction in which it is moving the exchange rate in the case of El Salvador.

In the case of interest rates, here again you have a problem of calculating what is a real interest rate and whether it is negative or not.

Again I have argued in other programs and made the point in this one that the interest rate in El Salvador, which in the program was 12.5 percent, with an inflation rate of 15 percent indicates in my mind that that is probably negative; that the interest rate in future reviews should be brought at least to the rate of inflation.

There was some movement in that direction on the interest rate. Again, it is not an absolute requirement to have a positive real interest rate.

Mr. PATTERSON. Do you see, in future programs for El Salvador, the United States favoring the full devaluation and higher interest rates?

Mr. ERB. I would be looking for further movement of the official rate toward the market rate. In cases where you have capital flight occurring, the question then does arise, does the market rate in that circumstance reflect an economic rate given the productive base of the economy?

Normally I think that a market rate is probably a good approximation of what is the right economic rate.

Whether there should be a complete movement of the official rate to the market rate is another question.

My own judgment is there should be further movement toward the market rate and that it will then be possible to see what impact that has on the market rate itself.

In some countries where the official rate has moved toward the market rate, that has brought the market rate—it has led to an appreciation of the market rate because of the shifts in financial flows.

Mr. PATTERSON. Capital flight that you just referred to has been very massive down there in El Salvador. How do you think this standby will increase business confidence so that capital flight doesn't continue?

If it does continue, how do you ever solve the problem?

Mr. ERB. I think the problem over the longer term of capital flight will only be ameliorated through the improvement in the political situation and greater political stability.

At the same time, if the government can follow the policy course for this year, and if it continues making adjustments into the next year, I think that will go a long way to improving the economic base for political stability and it will create the economic conditions within El Salvador for return of both domestic capital as well as potential for foreign capital inflows.

It is not the fact that El Salvador has a financial program with the fund per se that is going to be important. It is clearly, as in every other financial program the fund has, whether the government follows through on the policy adjustments and continues to make them into the future. That will answer the question.

Mr. PATTERSON. I have just one last question sort of along the lines Ms. Oakar asked, without getting into minutes, and so forth.

It appears that the administration confronted certain differences of opinion among staff, management, other countries in regard to this loan. I guess the question I am asking is, If that is the case, and yet it still went through, can you tell us a little more clearly how that process works without violating any confidentiality?

We are all saying, I think, the same thing: That the international institutions should be used based on certain guidelines and not based on political pressuring for present needs.

Apparently there at least was a strong difference of opinion as we understand it, and is that a typical case? Is this an unusual situation?

Mr. ERB. Let me say the differences of opinion, at least among the members of the Board on the CFF and the standby for this year did not lead to opposition on the Board to the program.

It was generally supported by all Executive Directors. There was one Executive Director who stated that a country in his constituency was not happy with the program and could not support it, but in representing his constituency, he did not oppose the loan. So did all the other Executive Directors.

In doing so, the program itself was subject to a lot of critical discussion at the Board. If I look at the—as I look back at the discussion in July, many of those Directors made the same kind of critical points that we made in our discussion.

In our statement at the Board in July, what we did was concentrate on what we thought were the weaker elements of the program.

As a general practice, I do think in every Board discussion of a program most Directors concentrate on the weaker parts of it. As I said, I talked about the need for further adjustment in the exchange rate, further adjustments in interest rates, further adjustment in the fiscal deficit over time.

My statements were quite similar to the statements made by other Executive Directors. They cited all of these areas where further adjustments would be necessary.

I also stated in my statement that the midterm review was going to be a major review from our point of view, and so did a number of other Executive Directors. In that sense, I don't think there was great controversy within the Board that would have led to—that

led—there was not controversy that led to opposition to the program.

In many ways the El Salvador program was quite similar to some recent programs that we have had at the Board. For example, one that came up in previous weeks was a program for Madagascar; some of the strengths and weaknesses of the El Salvador program were quite similar to that one.

Mr. PATTERSON. Thank you. Thank you, Mr. Chairman.

Chairman NEAL. Mr. Coyne?

Mr. COYNE. Thank you, Mr. Chairman.

I have only one question.

I was wondering about the fact that there is an inadequate land reform policy in effect in El Salvador and the instability that that creates in the country. How much did that weigh on the IMF's decision to grant the loan?

It seems to me if there is instability because of conditions like this, an inadequate land reform policy, that that would affect adversely their ability to repay the loan. I just wonder how much influence that has on your criteria for making your judgment about the loan?

Mr. ERB. The staff, in its analysis of the land reform, noted a couple of things.

One is that part of the problem in El Salvador in, as I mentioned before, sugar and cotton over the last 2 years, came about because of the land reform changes.

I think even though one may decide that the land reform is desirable from a political point of view, as you go about doing it, it is bound to have disruptive effects during that transition period.

Whether the outcome of the land reform from an economic point of view makes sense is a question that the Fund staff has not made a final determination on.

Quite frankly, they are unsure about it. It is an area which they want to, in the future reviews, work closely with the World Bank in making that judgment.

Probably the specific expertise on questions of that type, what impact from an economic point of view will the land reform have on production and the production process, requires more specific knowledge that can be found in the World Bank. That is why we have pressed for IMF/World Bank cooperation not only in the case of El Salvador, but also in the case of other programs.

Mr. COYNE. I guess the question is, do you feel that that is an element that ought to be considered before you grant the loan? If there is an inability to pay there because of the instability as a result of lack of adequate land reform policy, isn't that something that the Board ought to consider before they make the loan?

Mr. ERB. The Board considers the overall ability, or the overall likelihood of El Salvador to not only pursue the adjustment measures it has agreed to in the context of the program, but also to repay the Fund in a timely way when the repayment is required.

Those judgments depend on judgments in an array of economic and other factors.

In my own judgment—as we looked at it, and in the Fund staff's judgment and in the judgment of other directors who approve the

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program—that per se was not an overriding factor to lead them to oppose the program.

Mr. COYNE. It wouldn't inhibit their ability to repay in the Board's judgment? In your judgment?

Mr. ERB. That is right, but at the same time what we asked for was some further examination of the economic consequences of the land reform. That is a dimension that needs to be looked at at the same time as one looks at broader political ramifications of land reform.

To be more specific, you can have land reform that may satisfy certain political objectives because it redistributes property in a certain way, that could have a detrimental impact on production because either the size of the farm units or the methods of production under the reallocation are not economically efficient.

It may improve the economic efficiency. That is a judgment that I cannot make. I do not have the expertise to make it. To a large extent, the Fund per se does not have an expertise. That is why they would have to draw upon the expertise of consultants and the World Bank, in making that type of longer term assessment.

Mr. COYNE. Thank you.

Chairman NEAL. Thank you, Mr. Erb, for your testimony.

We have had the second bell. I would like to say this for the other witnesses and for the members. We understand all debate will end on this bill at 11:30, so we will likely have another vote. That will be very soon after this vote.

We will probably have to stay on the floor and record our votes on those two issues and then come back as soon as we can and hear from the other two witnesses.

I am sorry for this inconvenience, but I see no alternative.

We will reconvene in a few minutes.

[Recess.]

Chairman NEAL. I would like to reconvene the hearings at this time.

Mr. Morrell is not here.

We would like to hear from our other witness, the Honorable Angier Biddle Duke, at this time.

STATEMENT OF FORMER AMBASSADOR ANGIER BIDDLE DUKE, CITIZENS' COMMITTEE ON THE EL SALVADOR CRISIS, NEW YORK, N.Y.

Mr. DUKE. Mr. Chairman, I appreciate the opportunity to be here at this hearing to support the IMF's loan to El Salvador. Our group, which is largely an interfaith organization, of which I have been cochairman, along with Clark Kerr, president emeritus of the University of California, we are the cochairmen that headed a nongovernmental study mission that visited El Salvador for 2 weeks at the end of last year.

Dr. Kerr subsequently participated as an observer, a U.S. official observer, in the March 1982 elections.

I have followed with great interest and have been particularly involved in supporting democratic development in El Salvador through social and economic reforms and especially land reform and the electoral process.

Chairman NEAL. Excuse me. Let me say without objection, we will put your entire statement in the record. Please feel free to summarize as you wish. I didn't want to overlook that point.

Mr. DUKE. I would like to emphasize that I believe these are two interlinked developments, both land reform and the electoral process.

I believe the electoral process becomes more meaningful when it is based upon social reforms. Therefore, if one does not work, the other will not work. Therefore, we feel that these are two, again, interlinked and fundamental developments which have enabled the country to survive the onslaughts of the Marxist-Leninist opposition and move toward building democratic institutions and a more stable economy.

I go over in my testimony the history and the record of land reform since 1980. I went over the situation in El Salvador in late 1979 and 1980 leading right up to the elections, and I might comment that from the very beginning the land reform program has been under vicious and violent attack by both the extreme left and the extreme right, but I should emphasize that the program has undercut the guerrillas' potential mass support.

It has broken the back of the oligarchy's domination of the land, the basic power in their agricultural economy.

We have seen reservations and heard allegations that the program was a failure hastily drawn, imposed by the United States, and that it has caused serious damage to the economy. These charges are false and are calculated only to destroy the ongoing program.

I feel that the record speaks for itself here. My testimony goes into the details. I might refer to recent problems. In May of this year the right wing coalition in the constituent assembly attempted to suspend the land to the tiller phase of the program.

That attempt has been stopped by the action on July 27 of a special presidential commission composed of representatives of all sectors including the peasants and trade union organizations.

As you know, historically El Salvador has had a basically healthy economy with the smallest external debt in the developing world.

In recent years it has suffered three major setbacks. The decline in world coffee prices, which we heard Mr. Erb refer to, the increase in world oil prices, and the guerrilla terrorists, continuing attacks on the economic infrastructure.

To deny normal aid and credit under those circumstances would give aid and comfort to the violent opposition whose chief objective is to sabotage the economy of the country and destroy the fragile democratic institutions which are now being built.

It can be said that land reform is back on track. One cannot say that it is a success or that it is a failure. The point is, it is on track.

The road is clear now for substantial and long lasting economic progress in the agricultural sector depending, of course, on the world situation, world prices of commodities as well.

We would hope that this committee and the U.S. representatives to the IMF would see to it that a substantial proportion of this loan is allocated to the land reform sector to encourage continuing pro-

duction of the large farms, cash crops and the small farms, essential food crops.

The temptation to invest only in the on-reform middle-sized farm sector should be resisted.

That, Mr. Chairman, is the substance of my testimony.

[Mr. Duke's prepared statement, on behalf of the Citizens' Committee on the El Salvador Crisis, follows:]

Citizens' Committee on the El Salvador Crisis

Co-Chairmen
Ambassador Angier Biddle Duke
Chairman, National Committee on American Foreign Policy
Former Ambassador to El Salvador

Clark Kerr
Chairman, The Land Council
President Emeritus, University of California

Reverend Ernest Bartell
Director, Center for Economic Justice and Corporate Responsibility
Maryknoll School of Theology

Orville Freeman
President, Business International
Former Governor of Minnesota
Former Secretary of Agriculture

Reverend Ira Gallaway
Pastor, United Methodist Church, Peoria

Rabbi Arthur Schneier
Park East Synagogue, New York
Chairman, Appeal of Conscience Foundation

Marv N. Temple
Executive Director, The Land Council
New York

TESTIMONY OF AMBASSADOR ANGIER BIDDLE DUKE

TO THE

BANKING COMMITTEE OF THE U.S. HOUSE OF REPRESENTATIVES

ON THE TOPIC OF

THE INTERNATIONAL MONETARY FUND LOAN FOR EL SALVADOR

AUGUST 12, 1982

Mr. Chairman:

I am grateful for the opportunity to appear at this hearing on behalf of our Citizens' Committee to support the International Monetary Fund's $85,000,000 loan to El Salvador. Our group has a continuing concern about the situation there. El Salvador was my first ambassadorial post. More recently, I was co-chairman, along with Clark Kerr, of a private study mission that visited there for two weeks in December 1981. Dr. Kerr was an official U.S. Observer at the March 28 elections. We have been particularly involved in supporting democratic development in El Salvador through social and economic reforms -- specially land reform -- and the electoral process. It is these two interlinked and fundamental developments which have enabled El Salvador to survive the onslaughts of the Marxist-Leninist guerrillas and to move toward building democratic institutions and a more stable economy.

In March and April of 1980 the land reform program gave a new stake in their society to two thirds of the

formerly landless peasants of El Salvador. Some 200,000 of the country's 300,000 landless peasant families became owners and operators of the farms they had been cultivating as agricultural laborers, tenants or sharecroppers.

In March 1980, Phase I of the land reform turned the largest estate (1,250 acres and up) over to the peasants working on them. They formed cooperatives which have been operating these farms for the past two years. This phase included about 50,000 peasant families.

On April 28, 1980 the next and largest phase of the land reform program was enacted. This "land-to-the-tiller" phase transformed 150,000 peasant families into owners and operators of the farms they had been cultivating as tenants and sharecroppers. The former owners are to be compensated for the land, with the peasants paying the same amount over a thirty-year period.

You may recall the situation in El Salvador in late 1979 and early 1980. Even though socialists and communists were prominent in its ranks, the government formed after the October 1979 coup d'Etat by young officers fell in January 1980, under continuing pressure of demonstrations and terrorism by the extreme left. The Marxist-Leninist leadership of the guerrilias hoped to repeat their July 1979 victory in Nicaragua, and appeared to be well on their way. When the new government was formed in late January few observers thought it would survive more than a few weeks. On January 27 the extreme left brought 200,000 demonstrators out on the streets, mostly peasants trucked in from the countryside.

On May Day, 1980, after the enactment of the two phases of the land reform, the extreme left's widely publicized demonstrations brought out fewer than 2,000 people. The peasants

were no longer available; they were busy cultivating their land. Since then the Marxist-Leninist guerrillas have failed repeatedly to rally popular support for their general strikes, their final offensive and, most recently, their attempt to disrupt the March 28 elections. Those elections dealt another heavy blow to their hope of taking over El Salvador.

From its beginning the land reform program in El Salvador has been under vicious and violent attack by both the extreme left and the extreme right. By satisfying the peasants' land-based grievances, the program undercut the guerrillas' potential mass support. At the same time, it broke the back of the oligarchs' domination of the land -- the base of power in their agricultural economy.

These enemies of land reform on both extremes have alleged that the program was a "failure," "hastily drawn," "imposed by the United States," and that it had caused serious damage to the economy.

These charges are false and calculated only to destroy the program. A three-month field study by a team led by Dr. Don Paarlberg, the most distinguished American agricultural economist, in late 1981 showed that in 1980 production on the large cooperatives had declined ten to twenty percent above the 1979 level. On the small Phase III land-to-the-tiller plots, production of food grains in 1980 was maintained at the 1979 record level and declined about seven per cent in 1981, due largely to the violence.

Recent production problems have been largely due to uncertainty by the owners of middle-sized farms on the unimplemented Phase II. These farms include fifteen to twenty percent of crop land and produce primarily cash crops for exports -- about thirty to forty percent of both cotton and

coffee, and twenty percent of the sugar cane. Thus, the Phase II owners' unwillingness to invest in these expensive crops in the face of uncertainty has caused production to drop in this sector.

In May of this year the right-wing coalition in the newly-elected Constituent Assembly attempted to suspend the land-to-the-tiller phase of the program. That attempt has been stopped with the action on July 27 of a special presidential commission composed of representatives of all sectors, including the peasants' and trade union organizations.

As you know, historically El Salvador has had a basically healthy economy with the smallest external debt in the developing world. In recent years it has suffered three major setbacks -- the decline in world coffee prices, the increase in world oil prices and the guerrilla terrorist continuing attacks on the economic infrastructure. To deny normal aid and credit under these circumstances would give aid and comfort to the violent Marxist-Leninist guerrillas, whose chief objective is to sabotage El Salvador's economy and destroy the fragile democratic structures now being built.

With the land reform back on track, the road is clear now for substantial and long lasting economic progress in the agricultural sector.

We would hope that this Committee and the United States representatives to the I.M.F. would see to it that a substantial proportion of this loan is allocated to the land reform sector to encourage continuing production of the large farms' cash crops and the small farms' essential food crops. The temptation to invest only in the non-reformed middle-sized farm sector should be resisted.

The New York Times

Sunday, March 21, 1982

To End the Killing in El Salvador–

GIVE PEACE–AND DEMOCRACY–

A CHANCE

THE MIDDLE WAY

Some see El Salvador only in terms of the East-West conflict. Ignoring the social injustices at the root of the fighting, they view the guerrillas as simply the surrogates of Cuba and the Soviet Union, and call for greatly increased military aid aimed at the defect of communism in Central America.

Others see the guerrillas as simply the champions of the poor, fighting for social justice for the oppressed peasants and workers. They would cut off United States aid altogether, saying the Salvadorans should settle the conflict themselves.

Either route would intensify the military conflict, take a greatly increased toll in human lives, and impose a totalitarian government of either the extreme right or left on the Salvadoran people.

Caught in the middle are the millions of Salvadorans—by far the great majority—who support neither route, but rather look to reform, elections and a political solution to the conflict, isolating the violent extremes.

The extreme right and their supporters among the ex-oligarchs, mostly living abroad, who finance death squads and agents in the security forces, are rejected by the great majority of Salvadorans. The ex-oligarchs would try to reverse the far-reaching reforms that have been undertaken by the government in the past two years, following the October 1979 overthrow of the repressive Romero dictatorship. But the oligarchs cannot succeed. The old order is finished.

The extreme left and its 5,000 armed guerrillas are also rejected by the great majority of Salvadorans. Unlike the Nicaraguan revolution, the Salvadoran insurgency has not rallied the people to its cause despite repeated appeals for a popular uprising from the self-avowed Marxist-Leninist guerrillas. Indeed, terrorist actions and economic sabotage have alienated the people by uprooting peasants, increasing urban unemployment and swelling refugee camps.

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Reforms

The primary objective of United States aid must be to help the Salvadorans address the root causes of the conflict—centuries of exploitation of the masses of poor peasants and workers by a small group of extremely rich landowners.

Two years ago, when the Christian Democrats entered the government, they undertook the most radical land reform program in Latin-American history, as well as banking and trade reform. In March and April of 1980 some 210,000 landless campesino families—1,200,000 peasants—became the legal and de facto owners of the land they had been cultivating as laborers, tenants and share-croppers. Two thirds of the formerly landless peasants now are the owners and operators of farms that encompass 44% of El Salvador's crop land, under the two phases of the planned three-phase program.

This land reform overnight broke the grip of the oligarchs, and at the same time denied the Marxist-Leninist guerrillas their appeal to the landless peasants.

And overnight the program gave a new stake in their society to one-fourth of the country's 4.8 million population.

The land reform has been attacked relentlessly by the violent right and violent left in El Salvador, and by their political supporters around the world. Other problems have plagued the program. Delays in issuing titles to the new owners have encouraged some ex-landlords, aided by their agents in the security forces, to begin extorting rent and even to evict illegally some of the new rightful owners.

With our economic and technical aid we can help the Salvadorans consolidate and extend the land reform program —to accelerate issuing land titles and payment of compensation to former owners; to reinstate families evicted illegally; to halt any further such evictions; to enact the final phase of the program; to order and train the armed forces to protect the rights of the new owners. As the peasants begin to prosper, the foundation will be established for healthy economic growth and democratic development.

Elections

The eyes of the world will be on El Salvador's voters on Sunday, March 28, when they go to the polls to elect a Constitutional Assembly—the first step in an electoral process that will go on next year to choose a president, and then a legislature.

The eyes of the world will do more than watch. The vigilance of scores of international observers in El Salvador will help to keep the elections honest and non-violent.

In strife-torn Central America this electoral process is far more revolutionary than the guerrilla movement that is now trying to disrupt it. While no one expects the elections alone to solve El Salvador's problems, they are an essential first step in the process toward a fully democratic government.

Support for the elections is widespread, with the Church leaders endorsing the process and urging all Catholics to vote. This call is supported by Pope John Paul II. The Organization of American States supports the elections and will send official observers, as will dozens of countries and non-governmental organizations. Peasant and worker unions, in a coalition that represents some 500,000 workers, are engaged in campaigns to get out the vote. The peasant union has employed 60 women to get out the women's vote.

Some would discount the elections because the guerrillas and their political representatives have refused to participate. Despite this, the seven parties running present the voters with a wide range of choices. The Christian Democrats' candidacy, for example, provides an alternative far more progressive than the most liberal Democrats in the United States.

Beyond their importance in establishing the democratic process and electing the Constituent Assembly, the elections can open the way to negotiations for a political solution to the conflict.

Negotiations and a Political Solution

After the March 28 vote, the government, with the new authority vested in it by the people, must prepare the way for negotiations with all groups, including the armed guerrillas and their political allies, to establish conditions for their participation in next year's elections. These negotiations should address:

- a cease-fire under international supervision;
- strict measures to stop human rights violations by extreme rightists and leftists, and by members of the Armed Forces;
- full protection under international supervision of all parties and all candidates in the election campaigns and full access to the media;
- full amnesty to guerrillas who wish to vote, to return to their homes and, if they wish, claim their right to participate in the land reform program.

Negotiations should be initiated to bring about suspension of military aid to both sides under international inspection, including satellite surveillance and air, ground and sea patrols adequate to insure against clandestine supplies to either party. Any evidence of violations must be made public and brought before appropriate international authorities.

Until an agreement on total suspension is in force we support the view of the coalition of peasants and trade unions and of the five Bishops of El Salvador, including Acting Archbishop Rivera y Damas, that U.S. military aid must continue as long as the guerrillas are being supplied by the Soviets, Cuba and Nicaragua.

We urge, however, that each successive shipment of military aid be made conditional upon specified progress in the land reform program as well as in bringing under control the violations of human rights by extremist elements in the armed forces.

We appeal to President Reagan:

- to declare unequivocally, once and for all, that the United States will not intervene with troops in El Salvador's internal conflict; this would overcome the fears that El Salvador will become "another Viet Nam."
- to support far more vigorously, in word and deed, the fundamental social reforms already under way in El Salvador; this would strengthen the democratic center, signal the right wing extremists that there is no hope of returning to the old order, and assure the American people that our priority is on economic, and not military, solutions in Central America.

We appeal to the Salvadoran guerrilla movement:

- to refrain from the announced effort to disrupt violently the electoral process; such actions will increase the bloodshed, help the extreme right, and reduce the chances for meaningful negotiations; and they will demonstrate fundamental opposition to democratic institutions.

We appeal to the American People

- to join with us in supporting those millions of Salvadorans who are caught in the crossfire and desire only a peaceful and democratic solution to the conflict.

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ELECTIONS · NEGOTIATIONS ·

CEASE-FIRE

Citizens' Committee on the El Salvador Crisis

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Former President
United Auto Workers
Former Ambassador to China
Ann Arbor, Michigan
Organizations listed for identification only

*These members of the Citizens' Committee formed a study mission that visited El Salvador for 10 days in December 1981. They met with a broad spectrum of Salvadorans. This statement and testimony before Committees of the U.S. Congress reflects their views.

This statement also reflects the commitment of three men who gave their lives for reform and democracy in El Salvador. The revolutionary land reform there would not have been enacted without the courageous work of José Rodolfo Viera, the President of El Salvador's largest peasant union, who also directed the Government's land reform agency. Viera and two dedicated American land reform advisers working with him — Michael Hammer and Mark Pearlman of the AFL-CIO's American Institute for Free Labor Development — were assassinated in January of 1981, martyrs to the cause of freedom and justice.

To: Citizens' Committee on the El Salvador Crisis
2211 Broadway, Suite 7G
New York, New York 10024

☐ Yes, I want to help the program to bring peace and democracy to El Salvador.

☐ Send me more information.

☐ I enclose a contribution for the Committee's work.

$_____

☐ $5	☐ $50	☐ $500
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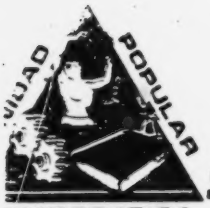

UNIDAD POPULAR DEMOCRATICA.(U.P.D.)

STATEMENT OF THE POPULAR DEMOCRATIC UNITY, U.P.D. RELATING TO RECENT DEVELOPMENTS WHICH AFFECT THE WORKING CLASS OF EL SALVADOR

The Political Committee of the POPULAR DEMOCRATIC UNITY (UPD), with the intention of clarifying to the Salvadoran people, and to other friendly countries who help us, the position of the representative union and campesino organizations of this country, wishes to make the following declaration:

1. The POPULAR DEMOCRATIC UNITY, U.P.D., is satisfied that the elections held on March 28, 1982 were conducted in a fair and honest way, and that the elected officials of the Assembly have therefore the right and responsibility of interpreting the collective will of the Salvadoran people.

2. The POPULAR DEMOCRATIC UNITY, U.P.D., calls upon the representatives elected to the Constituent Assembly to understand that the people of El Salvador gave them a mandate

   a) to establish peace and maintain justice within a legal framework

   b) to create conditions conducive to economic development within the context of social justice applicable to the great majority of the Salvadoran people

   c) to strengthen the democratic process by means of a new written political constitution and by guaranteeing the scheduling of general elections in 1983.

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3. The POPULAR DEMOCRATIC UNITY, U.P.D., notes that the passage of Decree 3 gives current legal recognition to the decrees issued by the former Revolutionary Junta, especially Decrees 153, 154, 207 and 221.

4. The POPULAR DEMOCRATIC UNITY, U.P.D., aware of the need to increase production in general and agricultural production in particular, approves the position of the President of the Nation and the Armed Forces of the elected government for taking those steps which are necessary to achieve this end. We caution, however, that the gods of production must not be allowed to sacrifice the social progress of the people of El Salvador on their altars. We maintain that the causes of the current low production in the agricultural fields should be attributed to other factors and not to the Land Reform laws and regulations.

5. The POPULAR DEMOCRATIC UNITY, U.P.D., in every practical sense calls upon the Constituent Assembly to recognize that Decree No. 6 and its interpretation in Decree No. 11 has fostered confusion among honest private citizens and members of the High Military Command, and has led to a self-destructive interpretation of the law by some elements of the society who would like to reverse the social and structural progress made during the past two years, and reminds the Assembly that they were elected, in whole or in part, on their promises to implement the reforms for the good of the people.

6. The POPULAR DEMOCRATIC UNITY, U.P.D., notes the dramatic increase in the number of campesinos who have been deprived of their land by former land owners who have taken advantage of the confusion created by Decrees 6 and 11 to illegally evict the beneficiaries of Decree 207. We therefore support Decree 13 as a solution to this situation.

7. The POPULAR DEMOCRATIC UNITY, U.P.D., is concerned about the changes taking place in the different branches of the government, namely the dismissal of technicians and officers known for their dedication to the land reform process and their replacement with persons less than favorably disposed, and asks that the authorities do not replace such persons who at this very moment are contributing to the successful completion of the process, for its own sake and credibility, with the added participation of the legitimate representatives of the working class.

8. The POPULAR DEMOCRATIC UNITY, U.P.D., recognizes the efforts on the part of the administration to issue land titles and to restore the rights of the beneficiaries of Decree 207, and urges the government to speed up this process.

9. The POPULAR DEMOCRATIC UNITY, U.P.D., urges the government to intensify its search for the funds needed to pay compensation to the former owners of land affected by the Land Reform program.

10. The POPULAR DEMOCRATIC UNITY, U.P.D., as representatives of more than half a million Salvadoran workers from the urban and rural sectors, insists that the elected government of El Salvador seek to secure from national and international sources the funding needed to speed up the economic development of the country, which will ultimately be of benefit to the Salvadoran workers and campesinos.

11. The POPULAR DEMOCRATIC UNITY, U.P.D., considers it a matter of urgency for the Government, by way of the Constituent Assembly, to issue an agrarian union law in order to protect

those campesinos who for some reason have not acquired land; this law would serve to ensure them social protection.

"FOR THE LIBERTY, REAL DEMOCRACY,
SOCIAL JUSTICE, INDEPENDENCE AND
NATIONAL SOVEREIGNTY OF EL SALVADOR"

Political Committee

POPULAR DEMOCRATIC UNITY, U.P.D.

San Salvador, August 2, 1982

FRANCISCO ZALDAÑA CABRERA
FESINCONSTRANS

SAMUEL MALDONADO
U.C.S.

JORGE CAMACHO
ACOPAI

JOSE LUIS GRANDE PREZA
C.T.S.

THE LAND COUNCIL

For Rural Progress in Developing Countries

FACT SHEET ON LAND REFORM IN EL SALVADOR

Land reform in El Salvador is a new reality. It happened a year ago. It is irreversible, without unprecedented bloodshed.

There are 3,750,000 acres of agricultural land in El Salvador; 420,000 families make their living from agriculture (2,500,000 peasants). Some 120,000 of these families were and will remain owner-operators of the farms they cultivate under 250 acres. Not included in the land reform law, these farms encompass some 1,550,000 acres.

Before the land reform, 300,000 peasant families were landless; 150,000 of these were agricultural laborers; 150,000 were tenants and sharecroppers.

Since the land reform, 210,000 peasant families are now owners and operators of farms formerly owned by about 5,000 families. Compensation is being paid to the former owners. The new owners are paying for their land.

The Basic Land Reform Law was enacted March 6, 1980. It involves three phases. Two phases have been implemented.

Phase I, enacted also on March 6, 1980, was completed within three months, transferring 283 estates of 1,235 acres and over to the permanent and temporary workers on each of the farms, plus other landless families, up to the capacity of the farm. Encompassing about 615,000 acres, these farms included 22% of the coffee land, 29% of the cotton and 50% of the sugar--the chief export crops.

Some 62,000 families now own and operate these farms as cooperatives, maintaining the existing scale and units of agriculture, with the supervision and technical assistance of ISTA, the government's Agrarian Reform Agency. The Cooperative Associations will receive titles to their farms. Members can later decide whether to maintain the cooperative as a unit or choose other models of ownership, such as smaller cooperatives or individual ownership, with cooperative services for credit, machinery, seed, fertilizer and technical aid.

Decree 207, the Land-to-the-Tiller decree, was enacted April 28, 1980. Effective immediately, this decree transferred ownership of the farms they were cultivating to 150,000 tenant and sharecropper families. This decree encompassed another 370,000 acres, growing mostly corn, grains and food crops. A barrage of publicity continues, telling these new owner-operators that the farms they cultivate are theirs, they no longer pay rent to the former landlord and the harvest is theirs to eat or sell. Formal titles to the new owners are now being issued.

The last phase has not been enacted. This would affect middle-sized non-tenanted farms of 250-1,235 acres. A compromise that has been considered would transfer about 175,000 acres of the total 550,000 acres in this category. The 60,000 families now working on these farms would receive small holdings averaging 2 to 3 acres and continue to work part-time on the basic holding, which would be retained by the present owner. There have been indications from the government that this phase will be postponed for 5 years.

An International Research, Education, Communication and Action Program
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NOW 270,000 OF THE 400,000 AGRICULTURAL FAMILIES (68%) ARE OWNER-OPERATORS OF THEIR INDIVIDUAL FAMILY FARMS, MAKING THE OWNER-OPERATED FAMILY FARM THE BASIC AGRICULTURAL SYSTEM OF THE COUNTRY. ABOUT 80,000 PEASANT FAMILIES ARE MEMBERS OF COOPERATIVES WHICH OWN AND OPERATE THE LARGE ESTATES

Effects on 1980 Production (U.S. Department of Agriculture, 3 March 1981)

Production Figures (in 1,000 Metric Tons) USDA Figures

Crop	1979-80	1980-81	Crop	1979-80	1980-81
Corn	521	520	Cotton Seed	100	55
Dry Beans	47	41	Sugar Cane	2,857	2,500
Rice (Paddy)	57	53	Livestock		
Sorghum	100	102	(Cattle)	40	40
Tobacco	3	3	Pork	14	14
Coffee	170	150	Milk	348	350
Cotton	65	34	Eggs	38	38

Next Steps:

1. Titles must be issued swiftly to ex-tenants; with simplified administrative procedures, aerial surveys and computers, El Salvador's competent technicians can issue the bulk of the titles within a year;

2. As in Phase I, the military must protect the rights of the peasants and assure their security, as provided in the titling decree; illegal acts by military and security forces must be brought under control;

3. Compensation to the former owners must proceed without delay;

4. Titles must also be issued to the peasant cooperative associations now running the large estates.

5. Some formula should be undertaken to benefit the landless peasants working on farms of 230-1,235 acres, to prevent them from moving to Phase I farms and disrupting the reform process, and to remove the uncertainty hanging over these middle-sized landowners whose continued high production is an economic necessity. That production would not be jeopardized by allocating a couple of acres each to the laborers on their farms.

6. U.S. military aid as well as economic aid should be linked to progress on the land reform process.

On the political side, negotiations should be encouraged to bring moderates on the right and left into the political process. The scheduled elections in 1982 and 1983 present the opportunity for all parties to participate in choosing a new, democratically elected government. Organization of American States or other neutral outside supervision of the elections should be arranged to insure a fair vote.

EL SALVADOR BUSINESS SECTOR POSITION ON AGRARIAN AND OTHER REFORMS

In July 30, 1981, an advertisement in El Diario de Hoy in San Salvador stated the conclusions of a symposium held the previous week by the major organizations of the business sector.

They said: "The Productive Sector has recognized that the agrarian reform, the banking reform and the nationalization of coffee and sugar exports are facts, before which it is appropriate to adopt constructive positions."

They recommended:

1) That adequate compensation to be paid to the former (land) owners; that the government correctly apply the laws decreed;

2) That the bonds of the Agrarian Reform be able to be utilized for productive investments in industry, tourism and other activities beneficial for the country;

3) That the expropriation of land truly benefit the people, extending property titles to the beneficiaries, be they natural or juridical persons (cooperatives), and that none of the properties should continue to be managed as collectives that are properties of the State for the political benefit of the party in power; all stock in National Banks should be sold to the public, with precautions to avoid concentration of ownership.

It was the conclusion of the Symposium that this is not the moment to bring to a head new reforms which can only continue to aggravate the crisis and the government should make a forceful declaration to this effect that will bring tranquility and confidence to the productive sectors.

Signators:

ANEP (National Association of Private Enterprise)

Chamber of Commerce and Industry

Council of Agro-business Enterprises

Federation of Professional Persons

ASI (Salvadoran Industrial Association)

Chamber of Construction Industries

Federation of Small Business

Society of Commercial and Industrial Persons

Organization of Salvadoran Managers

Chairman NEAL. Thank you, Mr. Ambassador. Because we have votes coming up, I would like to go ahead and hear from Mr. Morrell at this point. Then we will have the opportunity to ask questions of both of you.

Mr. Morrell, I don't know whether you were in the room when we made this point, but it would be in violation of the House rules for us to accept any material that is of a confidential nature.

STATEMENT OF JIM MORRELL, CENTER FOR INTERNATIONAL POLICY

Mr. MORRELL. Mr. Chairman, the only statements in direct quotes in my testimony today are from published IMF documents.

However, I am providing a recapitulation of the decisionmaking process that led to the current loans.

Chairman NEAL. Fine. Certainly I want to make clear we want this to be a full, open hearing.

That is the reason we called the hearing. We in no way want to limit the testimony. It is just we do, however, want to make clear that it would be in violation of our rules to accept any confidential material. There is no way we can control the flow of material once it has left the administration. We are not trying to control it. However, we cannot accept it in this committee.

We welcome your testimony and thank you for being with us this morning. Your entire statement will be made part of the record without objection.

Please feel free to summarize as you wish.

Mr. LEACH. Would the gentleman yield briefly?

Is there a distinction in the House rules between confidential U.S. Government material and confidential material of international associations or agencies?

Chairman NEAL. I am not sure of the details of the House rules. We are not making that distinction.

Excuse me.

[Discussion off the record.]

Mr. LEACH. Thank you very much.

Do we treat documents classified by international agencies as if they were classified U.S. Government documents?

Mr. CRAIN. We consider them as a normal U.S. Government document under U.S. Government classification.

Mr. LEACH. Thank you.

Mr. MORRELL. I do appreciate the opportunity to appear.

The Center for International Policy, of which I am an associate, was founded in 1976 to explore the role of human rights in U.S. foreign policy. Its director is Donald R. Ranard, a former Senior Foreign Service Officer.

The chairman of the board is Donald M. Fraser.

In my testimony I will show that since 1981 the International Monetary Fund has flagrantly and repeatedly broken its own rules in order to give El Salvador money. This is not merely my conclusion. This was essentially the position taken by the Executive Directors representing all the major countries of Western Europe—England, France, West Germany, the Netherlands, Belgium, and

the Scandinavian countries—all except Italy, in the Executive Board meeting of July 27, 1981.

The recent loan of $85 million must be seen in the continuum of IMF decisionmaking on El Salvador beginning in 1981 and going on to 1983 when El Salvador is expected to ask for an extended fund facility loan on the order of $200 or $300 million.

You will notice that the amount exceeds most categories of U.S. military and economic-support aid.

The story begins in July 1981 when El Salvador asked the IMF for $36 million from the compensatory financing facility. The Executive Director for the Netherlands warned that if approved the loan could have serious consequences for the IMF's relations with its member countries and for its conditionality.

The gist of the Dutch Director's complaint was that the IMF staff had not established the existence, much less the size, of the temporary shortfall claimed by El Salvador and had not proposed the loan for adoption by the Executive Board.

Invariably under IMF procedure, the staff proposes a loan request for adoption by the Executive Board, or else it does not go to the Executive Board.

In this case the staff only submitted for consideration the loan proposal.

The reason the staff refused to propose the loan for adoption was that it was not prepared to say that El Salvador's request met all the requirements of the compensatory financing facility decision. The Dutch Director considered this a fatal flaw.

As he pointed out, a member country's eligibility for a compensatory financing facility drawing hinges on a projection of export earnings. According to an Executive Board decision published by the IMF in 1979, a request will be met where the fund is satisfied that the shortfall is of a short-term character.

And, in order to identify export shortfalls of a short-term character, the Fund, in conjunction with the member concerned, will seek to establish reasonable estimates regarding the medium-term trend of the member's exports.

In this case El Salvador offered an estimate but the staff did not consider the estimate reasonable, and it said it was unable to provide its own estimate because it could not assess the effect that the civil war would have on the country's future exports.

Inherently such estimates of future export earnings, based on a commodity-by-commodity analysis, are difficult to make. Yet the staff had routinely made them in the past for every single request.

Now it decided it could not make them for El Salvador. The Dutch Director felt that for his part, if the staff made that judgment he would accept it. He saw no practical way in which the Executive Board could make its own projection. He insisted that one essential element for a compensatory financing facility drawing had not been established.

The Dutch Director, who was formerly Director of Research for the IMF, the Department which prepares the commodity forecasts for the compensatory financing facility, faulted the staff for bringing the loan proposal before the Board at all.

He noted that the Fund had a long and unbroken tradition that the Board discusses loan proposals only on the basis of a staff paper making an independent analysis.

Even a single deviation from that principle would set a serious precedent.

He warned of the threat to the IMF's conditionality and for its reputation for objectivity that approval of the Salvadoran request would mean, since the request didn't carry the endorsement of the staff and management. He abstained on the decision, which is the IMF way of indicating opposition.

This Dutch position was echoed by the British representative, who said specifically that the request did not meet the requirements of the compensatory fund facility. The rules for the facility set out clearly that it was necessary to establish a forecast for exports in the 2 post-shortfall years, something that had not been done for this request. He also abstained.

The West German representative also noted that the staff had been unable to make a clear-cut judgment on the temporary character of the shortfall because of the unsettled conditions in El Salvador. The lack of a projection for the 2 post-shortfall years represented a departure from the procedures required by the decision on the facility. The West German delegate also abstained.

The Belgian analysis was similar. The staff was not sure the situation was temporary; unless the Directors were sure, they should not sanction a drawing.

The terms of the facility required the quantification of a shortfall. If that interpretation was altered, the rules themselves should be changed.

Otherwise, the IMF's longstanding principle of equal treatment of member countries would be jeopardized.

The French and the Scandinavian representatives also abstained on the same grounds.

The United States, for its part, supported the loan request basically because the administration wanted to get money to El Salvador. Executive Director Richard Erb acknowledged that the other Executive Directors seemed to have felt that the United States was pressuring the Fund to bring the El Salvador loan before the Board.

He stoutly denied that the United States had done such a thing. The United States absolutely would not use the IMF to serve specific U.S. political objectives in the Caribbean region; rather, we appreciated the IMF's economic surveillance and adjustment activities and would not make the IMF serve specific U.S. security objectives.

But then he brushed aside the European objections, contending that the staff should have made the required projections and even without them the Executive Board should approve the loan regardless.

The Third World representatives to the meeting all approved the loan; their invariable position at IMF meetings is to press for easier terms for any loan.

The United States, with 19 percent of the vote, and the Third World nations, including the oil exporters, plus Japan, Canada, and Italy, comprised a majority and the loan was approved.

I have gone into this much detail because this decision unlocked the door to the $85 million last month and the potential $200 to $300 million next year. This decision was perhaps the most hotly contested in the Fund's history.

It is without precedent for a loan to be railroaded through against the opposition of so many important member countries.

The fact that the United States did so reveals how anxious it was to channel money to El Salvador.

The concerns of the European Executive Directors were not misplaced. We now have actual figures for 11 months of the first postshortfall year, and El Salvador is woefully behind in meeting the minimum level of exports calculated by the staff needed to justify the drawing.

Nevertheless, in July 1982, El Salvador returned to the IMF for $85 million—$36 million again from the compensatory financing facility, and $48 million as a standby arrangement. Only the Scandinavian delegation this time raised any objection to the compensatory financing request. Showing a conspicuous change of attitude, this time the staff did provide the required postshortfall year forecasts and did propose the loan for adoption to the Board.

The Scandinavians felt that the export forecast the staff had prepared was questionable; however, their position was not shared by any other delegation.

Many delegations did raise questions about the easy terms of the standby, however. The proposed program is very weak; for example, weaker than the recent loan to Madagascar mentioned by Mr. Erb, on which the United States abstained.

Conspicuous by their absence are three key policy areas: agricultural pricing, interest rates, and subsidies.

Of the three, omission of a discussion of agricultural pricing—a common IMF topic—is the most glaring. There is also no discussion of the agrarian reform. The staff did not weigh whether the agricultural price structure is adequate, and whether the exchange rate provides an adequate return to the sector.

But the Fund also did not stipulate the need to raise interest rates, an action usually considered necessary.

For other countries, the Fund always insists on this, even for countries as desperately situated as Haiti and war-torn Uganda.

Finally, there was no requirement to cut subsidies. Here the contrast is with the IMF's recent treatment of Sudan. Basically the IMF would not even consider a request from Sudan until it agreed to cut subsidies on basic staples, even though a previous cut on subsidies provoked a riot against the Government.

The Scandinavians had many reservations about the standby agreement, noting that the economic situation in El Salvador was very complex and full of uncertainties.

They doubted that the program could lead toward a sustainable balance-of-payments situation and that all the measures in it could be implemented effectively, considering all the uncertainties.

They finally gave it their grudging approval, with the exception of Denmark, which dissociated itself from the decision.

In short, the program under the standby requires surprisingly little adjustment. The management justified this by saying the country was in trouble.

Chairman NEAL. I am sorry to have to interrupt you. We had the second set of bells for a vote on the floor. I thought Mr. Patterson would be back by this time.

We will adjourn for a few minutes. One of us will be back to complete the hearings in a moment or two.

[Recess.]

Mr. PATTERSON [presiding]. Gentlemen, I apologize for the interruptions.

Chairman Neal has asked me to take over for the remainder of the hearing.

My understanding is we are about midway with Mr. Morrell's testimony. We will finish that and then proceed to questions.

Several of the members have indicated they are going to make an effort to get back here during the questioning period.

With that, Mr. Morrell, you may proceed.

Mr. MORRELL. Thank you, Congressman.

I was talking about the most recent standby agreement with El Salvador, and I was summarizing that by saying that the program requires surprisingly little adjustment.

The management justified this by saying the country was in trouble, thereby showing a highly uncharacteristic degree of sensitivity to noneconomic factors.

These easy terms come at a time when the IMF is tightening the conditionality requirements again worldwide after a period of loosening up. It has been mainly the United States that has insisted on such tightening up.

That was underscored by President Reagan's speech at the 1981 annual meetings of the IMF and World Bank.

Why then were there not more objections from the Europeans to the recent standby? Basically, for three technical and one political reason.

First, all the European Directors made a major point of the midterm review, due between September and December, 1982. El Salvador's continued drawdown of the remainder of the standby will be contingent on its passing this executive board review.

Second, El Salvador met the technical requirements for the compensatory financing facility.

Third, the amount of the standby was relatively low—$48 million.

The political reason was that the guerrillas have lost political capital as a result of the elections, and the Europeans did not think this was the time or place to make another stand.

Mr. Chairman, I hope this testimony has illuminated the IMF's decisionmaking process that led to the recent loan. However, the real reason for concern about these loans is the human rights situation in El Salvador—the continuing slaughter of innocents by the army and death squads.

It is precisely this institutionalized cruelty that has set El Salvador on its downward spiral; so that even the executive directors' insistence on having the customary projections for the post-shortfall years—seemingly such a technical point—went to the heart of the problem of El Salvador: Is its decline temporary? Or, as the IMF would say, is the disequilibrium fundamental? The latter cannot be financed under the rules of the Fund.

During the debate on the human rights amendment on the IMF back in 1978, the principal objection was that such an amendment would politicize the Fund. We heard that argument again this morning.

The evidence I have submitted today shows how hollow that argument is. The IMF already is politicized. The United States used it for political purposes, and it let itself be used.

And if that meant breaking the rules, so be it.

Enactment of a human rights policy, such as is already required—if not much observed—for all other channels of U.S. aid, would not politicize the fund if applied impartially to dictatorships of the right and the left. It would institute a humanitarian purpose.

For further insight into the human rights situation in El Salvador, I recommend a recent paper by Heather Foote of the Washington Office on Latin America, which I submit for the record.

To conclude, the IMF's loans to El Salvador are a clear abuse. The funds can go for military purposes. Military expenditures are a part of the program the standby loan supports.

An immediate remedy might be to ask the Treasury Department to inform this committee of all upcoming IMF loans and the position the United States will take.

The committee might also consider ways to make sure that the United States takes just as objective a position on the midterm review of the standby agreement as the Europeans.

It should advise the administration to seek increased levels of aid to El Salvador through Congress not through the IMF.

The ultimate remedy, however, is a conscientious, evenhanded human rights policy embodied in both law and practice, embracing all forms of U.S. foreign assistance—including that rendered through the IMF.

Mr. PATTERSON. Thank you, Mr. Morrell. You indicated you had a paper by Heather Foote that you would submit for the record. Have you submitted that to the staff?

Mr. MORRELL. Yes.

Mr. PATTERSON. Without objection, the statement will be entered into the record.

[Mr. Morrell's prepared statement, on behalf of the Center for International Policy, and the referred-to paper of Heather Foote of the Washington Office on Latin America "Comments on Certification Statement by the Reagan Administration: Human Rights in El Salvador," follow:]

STATEMENT OF JIM MORRELL

ASSOCIATE, CENTER FOR INTERNATIONAL POLICY

Mr. Chairman, I appreciate the opportunity to appear before this committee. The Center for International Policy is a project of the New York-based Fund for Peace. It was founded in 1976 to explore the role of human rights in U.S. foreign policy. The Center's director is Donald L. Ranard, a senior former foreign service officer. The chairman of our board is Donald M. Fraser, the former congressman and currently mayor of Minneapolis.

In my testimony I will show that since 1981 the International Monetary Fund has flagrantly and repeatedly broken its own rules in order to give El Salvador money. This is not merely my conclusion. This was essentially the position taken by the executive directors representing all the major countries of Western Europe--England, France, West Germany, the Netherlands, Belgium, and the Scandinavian countries--all except Italy, in the executive board meeting of July 27, 1981. The recent loan of eighty-five million dollars must be seen in the continuum of IMF decisionmaking on El Salvador beginning in 1981 and going on to 1983 when El Salvador is expected to ask for an Extended Fund Facility loan on the order of two to three hundred million dollars. You will notice that that amount exceeds most categories of U.S. military and economic-support aid.

The story begins in July, 1981 when El Salvador asked the IMF for thirty-six million dollars from the Compensatory Financing Facility. The executive director for the Netherlands warned that if approved the loan could have serious consequences for the IMF's relations with its member countries and for its conditionality.

The gist of the Dutch director's complaint was that the IMF staff had not established the existence, much less the size, of the temporary shortfall claimed by El Salvador and had not proposed the loan for adoption by the executive board. Invariably under IMF procedure, the staff "proposes" a

loanrequest "for adoption" by the executive board, or else it does not go to the executive board. In this case the staff only "submitted for consideration" the loan proposal.

The reason the staff refused to propose the loan for adoption was that it was not prepared to say that El Salvador's request met all the requirements of the compensatory financing facility decision. The Dutch director considered this a fatal flaw.

As he pointed out, a member country's eligibility for a compensatory financing facility drawing hinges on a projection of export earnings. According to an executive board decision published by the IMF in 1979, a request "will be met where the Fund is satisfied that the shortfall is of a short-term character." And "in order to identify export shortfalls of a short-term character, the Fund, in conjunction with the member concerned, will seek to establish reasonable estimates regarding the medium-term trend of the member's exports." (See IMF Survey, August 20, 1979.)

In this case, El Salvador made an estimate of earnings over the two years after the shortfall year. But the staff did not consider the estimate reasonable. And it said it was unable to provide its own estimate because it could not assess the effect that the civil war would have on the country's future exports.

Inherently, such estimates of future export earnings, based on a commodity-by-commodity analysis, are difficult to make. Yet the staff had made them in the past. Now it decided it could not make them for El Salvador. The Dutch director felt that for his part, if the staff made that judgment he would accept it. He saw no practical way in which the executive board could make its own projection. He insisted that one essential element for a compensatory financing facility drawing had not been established.

The Dutch director, who was formerly director of research for the IMF, faulted the staff for still bringing the loan proposal before the board, likening it to a foundling. He noted that the IMF had a long and unbroken tradition that the board discusses loan requests only on the basis of a staff paper making an independent analysis. Even a single deviation from that principle would set a serious precedent.

The Dutch director warned of the threat to the IMF's conditionality and its reputation for objectivity that approval of the Salvadoran request would mean, since the request didn't carry the initials, so to speak, of staff and management. He abstained on the decision--which, under IMF custom, means opposed.

This Dutch position was echoed by the British representative, who said specifically that the request did not meet the requirements of the compensatory fund facility. The rules for the facility set out clearly that it was necessary to establish a forecast for exports in the two post-shortfall years, something that had not been done for this request. He also abstained.

The West German representative also noted that the staff had been unable to make a clear-cut judgment on the temporary character of the shortfall because of the unsettled conditions in El Salvador. The lack of a projection for the two post-shortfall years represented a departure from the procedures required by the decision on the compensatory financing facility. The West German delegate also abstained.

The Belgian analysis was similar. The staff was not sure the situation was temporary; unless the executive directors were sure, they should not sanction a drawing. The terms of the facility required the quantification of a shortfall. If that interpretation of the facility was altered, the rules themselves should be changed. Otherwise, the IMF's longstanding principle of

equal treatment of member-countries would be jeopardized.

The French and the Scandinavian representatives also abstained on the same grounds.

The United States, for its part, supported the loan request basically because the administration wanted to get money to El Salvador. Executive director Richard Erb acknowledged that the executive directors seemed to have felt that the Unite States was pressuring the Fund to bring the El Salvador loan before the board. He stoutly denied that the United States was doing any such thing. The United States absolutely would not use the IMF to serve specific U.S. political objectives in the Caribbean region; rather the United States appreciated the IMF's economic surveillance and adjustment activities and would not make the IMF serve specific U.S. political and security objectives. But then he brushed aside the European objections, contending that the staff should have made the required projections and even without them, the executive board should approve the loan regardless.

The Third World representatives to the meeting all approved the loan; their invariable position at IMF meetings is to press for easier terms for any loan. The United States, with 21 percent of the vote, and the Third World nations including the oil exporters, plus Japan, Canada, and Italy, comprised a majority and the loan was approved.

I have gone into this much detail because this decision unlocked the door and led directly to the eighty-five million dollars last month and the potential two to three hundred millions next year. This decision was perhaps the most hotly contested in the Fund's history. It is without precedent for a loan to be railroaded through against the opposition of so many important member countries. The fact that the United Stated did so reveals how anxious it was to channel money to El Salvador.

And the concerns of the European executive directors were not misplaced. We now have actual figures for eleven months of the first post-shortfall year, and El Salvador is woefully behind in meeting the minimum level of exports needed to justify the drawing. The level attained in the first post-shortfall year ending in May, 1982 was 560 million special drawing rights; under the formula, El Salvador would have to reach 814.1 million SDRs for the year ending in May, 1983. It is unlikely to do so. But there is no remedy.

In July, 1982 El Salvador returned to the IMF for $85 million--$36 million again from the compensatory financing facility, and $48 million as a standby arrangement. Only the Scandinavian delegation this time raised any objection to the compensatory financing request. This time the staff did provide the required post-shortfall year forecasts and did propose the loan for adoption to the board. The Scandinavians felt that the export forecast the staff had prepared was questionable; however, their position was not shared by any other delegation.

Many delegations did raise questions about the easy terms of the standby, however. The proposed program is very weak, weaker than the recent loan to Madagascar on which the United States abstained. Conspicuous by their absence are three key policy areas: agricultural pricing, interest rates, and subsidies.

Of the three, omission of a discussion of agricultural pricing--a common IMF topic--is the most glaring. There is also no discussion of the agrarian reform. The staff did not weigh whether the agricultural price structure is adequate, and whether the exchange rate provides an adequate return to the sector.

But the Fund also did not stipulate the need to raise interest rates, a point objected to by the Dutch director. For other countries, the Fund always insists on this--even for countries as desperately situated as Haiti.

Finally, there was no requirement to cut subsidies. Here the contrast is with the IMF's recent treatment of Sudan. Basically, the IMF would not even consider a request from Sudan until it agreed to cut subsidies.

The Scandinavians had many reservations about the standby agreement, noting that the economic situation in El Salvador was very complex and full of uncertainties. They doubted that the program could lead toward a sustainable balance of payments situation and that all the measures in it could be implemented effectively, considering all the uncertainties. They finally gave it their grudging approval, with the exception of Denmark, who dissociated itself from the decision.

In short, the program requires surprisingly little adjustment. The management justified this by saying the country was in trouble. These easy terms come at a time when the IMF is tightening the screws again worldwide after a period of loosening up. It has been mainly the United States that has insisted on such tightening up.

Why, then, were there not more objections from the Europeans to the recent standby? Basically, for three technical and one political reasons.

First, all the European directors made a major point of the mid-term review, due between September and December, 1982. El Salvador's continued drawdown of the remainder of the standby will be contingent on its passing this executive board review.

Second, El Salvador met the technical requirements for the compensatory financing facility.

Third, the amount of the standby was relatively low--$48 million

dollars.

The political reason was that the guerrillas have lost political capital as a result of the elections, and the Europeans did not think this was the time or place to make another stand.

Mr. Chairman, I hope this testimony has illuminated the IMF's decisionmaking process that led to the recent loan. However, the real reason for concern about these loans is the human rights situation in El Salvador--the continuing slaughter of innocents by the army and death squads. It is precisely this institutionalized cruelty that has set El Salvador on its downward spiral, so that even the executive directors' insistence on having the customary projections for the post-shortfall years--seemingly such a technical point--went to the heart of the problem of El Salvador: is its decline temporary? Or, as the IMF would say, is the disequilibrium fundamental? The latter cannot be financed under the rules of the Fund.

During the debate on the human rights amendment on the IMF back in 1978, the principal objection was that such an amendment would politicize the Fund. The evidence I have submitted today shows how hollow that argument is. The IMF already is politicized. The United States used it for political purposes, and it let itself be used. And if that meant breaking the rules, so be it.

Enactment of a human rights policy, such as is already required--if not much observed--for all other channels of U.S. aid, would not politicize the Fund if applied impartially to dictatorships of the right and the left. It would institute a humanitarian purpose.

For further insight into the human rights situation in El Salvador I recommend a recent paper by Heather Foote of the Washington Office on Latin America, which I submit for the record. It makes clear that the State

Department's recent certification of El Salvador was unwarranted.

To conclude, the IMF's loans to El Salvador are a clear abuse requiring heightened oversight by Congress and much, much greater attention by the press and the public than they have received so far. When the bureaucracy misbehaves, the only recourse in our system of government is the legislature, the press, and a widening circle of concerned citizenry.

An immediate remedy might be to ask the Treasury Department to inform this committee of all upcoming IMF loans and the position the United States will take. This way the committee can exercise oversight beforehand rather than after the fact.

The committee might also consider ways to make sure that the United States takes just as objective a position on the midterm review of the standby agreement as the Europeans. It should advise the administration to seek increased levels of aid to El Salvador through Congress, not through the IMF.

The ultimate remedy, however, is a conscientious, evenhanded human rights policy embodied in both law and practice, embracing all forms of U.S. foreign assistance--included that rendered through the IMF.

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COMMENTS ON CERTIFICATION STATEMENT

BY THE REAGAN ADMINISTRATION: HUMAN RIGHTS

IN EL SALVADOR

In a June 11, 1982 press conference,* U.S. Ambassador to El Salvador, Deane Hinton, responded to journalists regarding the methodology followed in collecting the information used in the certification determination. "You know," he said, "it's a lousy methodology. It has the advantage that it's been a lousy methodology consistently." Using this methodology, the Reagan administration has found trends indicating that the human rights situation in El Salvador is improving...bit by bit.

*(Held at U.S. Department of State)

For more information
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THE WHITE HOUSE ASSERTS THAT:

"Although the monthly total of deaths attributed to political violence declined somewhat (according to available statistics), human rights violations and terrorism continued to be a major problem during the certification period." (p.2)

HOWEVER:

...The White House follows an interpretation of the law which varies from that offered by numerous Senators and Congresspersons, who in drafting the law designed it to address not progress in the human rights area and steps towards control over the Armed Forces, but compliance with internationally recognized human rights and substantial control over its armed forces.

"The law in the Foreign Assistance Act attempts to define gross and consistent violations of human rights, and a few years ago we added disappearances to that definition. Nowhere in the law do we specify 'progress' as a criteria for measuring whether a country's human rights record is improving..Indeed, the language in the certification procedure says the administration must make the determination that the Government of El Salvador is making a concerted and significant effort to comply with internationally recognized human rights. That is all we said. That could be interpreted as meaning progress, but that is not the way I define the language."
(Rep. Bonker, in testimony before the Inter-American Affairs Subcommittee, February 2, 1982)

"(The language on achieving substantial control over all elements of its own armed forces) was very carefully worked out in the Congress, and as the President himself said..the issue of control in attempting to ensure a democratic future is a key issue. The president..said that in various ways the government has taken concrete steps to bring all elements of its armed forces under control. Now this is very different from saying that it is achieving substantial control. We had this out in Conference. The Senate wanted to have 'taking steps' as the standard, and we won on that and we required that the President find that the government is achieving substantial control. And I wonder why you have neglected to deal with that issue in your opening statement."
(Rep. Bingham, in hearings before the Inter-American Affairs Subcommittee, February 2, 1982)

...The White House refers only to decline in deaths attributed to political violence, thus omitting important categories of abuses. While the White House provides a chart on disappearances, this practice is not addressed in the report in any meaningful way. Disappearances are not considered as they relate to the number of politically-motivated killings, variations in selective repression, distribution of government repression in rural and urban settings, etc. Without taking into full account the disappearances, any assessment of 'trends' in the human rights situation is of limited validity. The difficulties in discovering trends is seen in the two passages below.

"In the first six months of 1981, especially up until April, the aftereffects of the 'general offensive' of the FMLN predominate and the government repression is greater, judging by the number of dead. This tendency begins to drop when the Government, due to international pressures, contemplates the possibility of a 'political solution' to the crisis through elections; this is concretized on September 15th when President Duarte presents this 'new political thesis.' From this time on, the social control of the Armed Forces and the Junta increases in the urban zones, especially in the capital, and the number of detainees and disappeared continues, with a decrease in the number of killings. The selective repression in the cities and mass repression in the countryside is the trend which continues until the present." (Proceso, No.46)

"During May 1982, 68 cases of persons abducted have been presented to this office of legal assistance..Of these 68 reported detentions, five persons were found murdered; six were found in detention by the security forces; seven were sent to Mariona Prison, but of the remaining persons absolutely nothing has been learned to date. (Tutela Legal, Report for 12-18 June 1982)

...Although a continuing human rights problem is recognized, in the 48-page report limited reference or no explicit reference is made to such basic human rights as: the right to fair trial and legal recourse; the right to freedom of expression and thought; the right to freedom of association; the right to fair trial and legal recourse; the rights of refugees; and the full exercise of political rights. The right to humane treatment is discussed primarily as it relates to reported changes in Armed Force behavior. This narrow focus is seen in the omission of information such as the following:

"The climate of insecurity continues to be such that we must condone and lament the violent death of four Dutch journalists and the attacks suffered by some Brazilian journalists. I think that this incident warrants a more in-depth investigation. The international or local journalist has the obligation of reporting on events in an objective and impartial way; within this framework of professional ethic, the journalist can and must be a builder of peace; but for that to occur even in the risky, narrow context of belicose actions, the journalist has a right to be permitted to reach the sources of information and has the right that the fulfilment of his mission be respected." (Bishop Rivera y Damas, Homily, March 21, 1982)

"An employee of the U.S. Embassy in El Salvador said that 'the news programs' of the Voice of America are 'censored by Salvadorean authorities before being transmitted in Spanish by local stations.' He said that the 'censorship has been in effect for over one year' despite the efforts on the part of the Embassy to lift it." (Proceso, No.55)

"Of the 496 political prisoners in El Salvador, the motive for arrest of 357 was accusation and/or denunciation. In none of the cases was there prior investigation." COPPES May 1982.

"Of the 52 women being held as political prisoners in the women's prison, the legal status for 22 is unknown." Salvadorean Human Rights Commission.

According to the COPPES, only six of 496 political prisoners have not been subjected to physical and/or phychological torture.

In just the month of March 1982, the International Committee of the Red Cross received more than 300 cases of disappeared persons.

THE WHITE HOUSE ASSERTS THAT:

"On March 28, 1982, the people of El Salvador exercised the internationally recognized human right to participate in the political process of their country. The overwhelming majority of the Salvadorean electorate cast ballots for the selection of a sixty-member Constitutent Assembly." (p.4)

HOWEVER:

..."No election held in a climate of violence, with limited participation and little if any discussion of issues, can accomplish a legitimate peace in El Salvador. Negotiations would reveal the true obstacles and deep problems that are preventing peace, and thus would establish a framework for what must be done to reconcile our society."
(Adolfo Arnoldo Majano, Los Angeles Times, February 2, 1982)

...In evaluating the legitimacy of the March elections, the White House focussed on the large voter turn-out, the presence of international observers, and on the absence of traditional fraud; rather than on the exercise of fundamental human rights in the months preceeding and following the day of the vote.

"The problem before us today is not the election in itself, but what will follow the elections. Will there really be a Constitutent Assembly with sufficient power? Will the country really return to a state of law? Will civil and juridical values once again become the basis for our civilization and human conduct? We do not want to be pessimistic, but we must ask ourselves these questions."
(Bishop Rivera y Damas, Homily, March 21, 1982)

...The minimal conditions set out by the U.N. Special Representative as the sine qua non for elections that can reflect the people's will were not met on any of the four points. Nor have measurable steps been taken to comply in the four months following elections.

"The Government plan of holding elections is perfectly legitimate and acceptable if and when the electoral process takes place in a climate of social peace in which the rights of free expression, association and assembly are fully respected, both de jure and de facto, a complete and genuine role of voters is available and, lastly, the authenticity of the ballot and effective respect of the people's will are guaranteed.. Consequently, as a sine qua non for the holding of elections, [the Government and authorities of El Salvador should take the following steps]:

(1) Repeal of any legal enactments or other measures that are incompatible with the standards laid down in the international instruments that are binding on the Republic of El Salvador in respect the human rights; especially repeal of Decree 507 of 3 December 1980 containing the Special Act on procedures applicable to the offences referred to in article 177 of the Political Constitution;

(2) Real and effective control by the Government over all the members and units of the armed and security forces and over all types of armed organizations and individuals to ensure that they conduct themselves in accordance with the provisions of the international instruments that are binding on El Salvador in respect of human rights, including the 1949 Geneva Conventions and the 1977 Protocols;

(3) Adoption by the Salvadorean governmental and judicial authorities of all appropriate legal measures to prevent and effectively punish violations of human rights and fundamental freedoms, incuding if necessary the dismissal from their posts of officials of the civil administration and the leader, officers and other ranks of armed and security forces who have carried out such violations;

(4) The Government of El Salvador should also show itself to be open and flexible as regards any other measures which might lead to the holding of elections in a climate of social peace, which measures should not exclude dialogue with the opposition forces, whether directly or through the good offices or mediation of another or several other governments, an international organization or individuals or private associations."
(U.N. Document E/CN.4/1502, p.45)

...The White House tends to equate the holding of elections, with the functioning if a democratic process and with the full exercise of political rights.

On March 30, 1981, the Salvadoran armed forces published a list of 138 persons considered traitors who were to be 'relentlessly pursured.' The list included Catholic University administrators,former members of the government, priests and political opposition figures. Included on this list are members of the MNR and the UDN, the two FDR parties encouraged by Salvadorean and U.S. government officials to register for participation in the elections.

...The legitimization provided by the elections may work against retroactive investigations and application of justice.

"But the elections produced a democratic result. Depending on where your sympathies lay, the right guy or the wrong guy won..And Mr. D'Aubuisson who two years before had been a coup plotter, had come into play the democratic game and won 29% of the vote for his own party."
(Press Conference, Amb. Hinton, State Department, June 11, 1982)

"The alleged ringleaers of a right-wing coup plot against the U.S.-backed junta in El Salvador were released from jail there last night in a suprise move... D'Aubuisson's) release last night was the decision of an army major, designated a special prosecutor for the case, who sources said consulted with the Salvadorean defense minister, Army Col. Garcia. The reasons given were insufficient evidence."
(Washington Post, May 15, 1982)

...In a San Salvador press conference, two Republican Congressmen , Mickey Edwards abd Jerry Lewis, both of the Appropriations Committee, reported that they were not given concrete data regarding continuation of the land reform and respect for human rights, 'but just vague responses that in the end are only words.' They assured 'that the U.S. cannot throw money to a Government only because it says it is anti-Communist,' but that it must prove that it is involved in a true democratization process.'
(El Diario de Hoy, June 28, 1982)

THE WHITE HOUSE ASSERTS THAT:

"This strife in El Salvador continues to produce serious and frequent violations of basic human rights committed by leftist guerrillas, right wing terrorists and members of the government's military and security forces." (p.4)

HOWEVER:

...Casework provided by Socorro Juridico and its successor, Tutela Legal (of the Archdiocese Justice and Peace Commission), as well as a recent State Department cable to the U.S. Embassy in San Salvador, indicate a relationship between government violations and those frequently attributed to 'right wing terrorists.' In calling for a Salvadorean government program to prevent abuses by 'death squads,' the State Department recognizes them as at least to some extent within the reach of the Salvadorean military.

"We have outlined below the objectives we will want to pursue with new provisional government in each of these areas..You should indicate that we need by the end of June a program of concrete proposed (Government of El Salvador) actions which we could use in defending certification and maintenance of requested economic and military assistance:..(4) We seek (a) to prevent abuses that might be committed by the military in the course of combat (e.g., the failure to take prisoners, the killing of real or apparent guerrilla followers); (b) prevent abuses that might be committed at the village level by security forces, Civil Defense personnel, or 'death squads' in non-combat situations (e.g., execution of suspected guerrilla supporters or sympathizers); and (c) prevent abuses occasioned by the absence of coherent, effective and protected investigative, judicial and penal system."
(Dept. of State Confidential Cable to Amb. Hinton, May 1982, emphasis added)

"The newspapers reported yesterday that the bodies of seven youngsters were found on the road to San Salvador volcano. The parents of three of these victims had reported to the Archdiocese that their children had been detained by persons in civilian dress and military uniform from the San Carlos garrison."
(Bishop Rivera y Damas, Homily, May 16, 1982)

JULIO CESAR MUNGUIA,22, employee, ROBERTO PENA RAMOS, worker, and VICTOR MANUEL PALACIOS, were found shot to death with four other persons, along the road leading to the San Salvador volcano, according to news reports. However, our office had received visits from relatives of Julio Cesar Munguia, testifying that he had been detained in a military operation in Mejicanos by soldiers of the Army and National Police. On May 13 the relatives of Roberto Pena Ramos denounced his detention at his home in Cuscatancingo, on 5 May, by soldiers of the San Carlos garrison. The relatives of Victor Manuel Palacios indicate that he was detained near his home in San Ramon, Mejicanos, by heavily armed persons in civilian dress.

JOSE LEONARDO JUAREZ, 43, married, day laborer, working with the Urbanism and Architecture Directorate, living in San Salvador, was detained on 26 June in the central market of San Salvador, as he accompanied his small son to make purchases. The detention was made by members of the National Police, who following the detention turned him over to persons in civilian dress. His whereabouts is unknown.
(Tutela Legal)

"Reporters began to write about El Playon last fall. The Minister of Defence, Gen. Jose Guillermo Garcia, first denied that any bodies were being dumped there, saying that the reports resulted from 'sensationalism' by foreign correspondents. Ultimately, under pressures from angry American diplomats, Jose Napoleon Duarte President of the ruling civilian-military government, and eventually Gen. Garcia ordered investigations. Asked about those investigations recently, spokesmen for the presidency and for the armed forces said they were not aware any such investigations were being conducted. 'No matter who may have been done or may have been promised, the bodies are still appearing there, that's the salient point,' said one American diplomat who asked that his name not be used.
(New York Times, April 25, 1982)

...Neither the Reagan Administration or the Government of El Salvador has provided credible documentation to substantiate claims of serious, frequent violations of the most basic right--the right to life--by leftist guerrillas against unarmed persons. The issue is not whether any such violations occur, but whether credible evidence would tend to substantiate the broad assertion of frequent violation of this right.

"As for civil and political rights, the information collected by the Special Representative has convinced him that, under the regime of the Government Revolutionary Junta which assumed power on 15 October 1979, there has been in El Salvador a consistent pattern of gross violations of these rights which, in many cases, has culminated tragically in attempts on human life. Members of the State apparatus, and violent groups of the extreme left are both responsible for these violations...the Special Representative in this final Report to the Commission on Human Rights can state that there are indications that violations of human rights involving attempts on life, liberty and security of the person are in the majority--but not solely--perpetrated by members of the State apparatus and violent groups of the extreme right, while terrorists acts against public and private property are mainly due to guerrilla groups."
(U.N. Document E/CN.4/1502, pp.42-43)

THE WHITE HOUSE ASSERTS THAT:

> "The criminal justice system has been, since the early 1970's, one of the major victims of El Salvador's civil strife. While it continues to prosecute some criminal cases, it has been ineffective in crimes associated with the civil strife." (p.4)

HOWEVER:

...No conclusions are drawn as to where fundamental problems lie and therefore when changes might be expected: Is the judicial system defective; the laws defective; the application of the law limited or selective; the judges of questionable political will; the society a sick one in which no judiciary could hope to function?

...The White House does not attempt to outline areas in which the judicial system is more--or less--effective. It provides no indication of any significant changes in the Salvadorean government's selective application of the law, as outlined by the American Civil Liberties Union and Americas Watch (see Report on Human Rights in El Salvador, March 1982, Chapter Six.)

> "In a communique, the Maximiliano Hernandez Martinez death squad..claimed responsibility for 'the majority of the killings' of people found at El Playon, in the Department of La Libertad."
> (Proceso, No.51)
>
> ...however...
>
> "The death squads still continue to act with impunity through our streets."
> (Bishop Rivera y Damas, Homily, July 4, 1982)
>
> ...
>
> "Of the 451 political prisoners, 373 do not know their legal status. Given this situation and hoping to encourage the establishment of a state of law, we ask the Hon. Constituent assembly to facilitate these legal proceedings or, better still, that a study be conducted of the way in which political prisoners may be released, to enable their integration into the pacific, active life enjoyed by most."
> (Bishop Rivera y Damas, Homily, May 2, 1982)
>
> ...however...
>
> "In 1981, Hans Adolpho Krist and Ricardo Sol Meza were charged with the murders of two American land reform advisers by the Salvadorean government; Sol Meza was imprisoned in El Salvador and Hans Krist was located in Miami..In October 1981, a Salvadorean judge suspended further judicial action against the two accused on the grounds that insufficient evidence had been developed to implicate them in the murders..The Salvadorean Attorney General appealed this order, but the suspension was upheld by the court of criminal appeals on April 13, 1982..Sol Meza had been freed from custody in El Salvador at the time of the October 1981 suspension order.
> (Presidential Certification, July 1982, p.13)

THE WHITE HOUSE ASSERTS THAT:

"Procedures established in Decree 507 for the investigation and prosecution of those suspected of subversion are being respected, even if basic constitutional rights have been suspended." (p.5)

HOWEVER:

...No mention is made of the determination by U.N. Special Representative Pastor-Ridruejo that this decree provides "excessively broad discretionary powers."

"The Special Representative also wishes to recall the provisions of Decree 507..according to which judicial subsidiary organs and the judicial authorities themselves enjoy excessively broad discretionary powers to decree preventive measures involving deprivation of freedom and also corrective measures for long periods of time, during which the accused are not even given an opportunity to present their defense. Corrective measures are even applied to persons under 16 years of age." (U.N. Document E/CN.4/1502, p.38)

...The Salvadorean Political Prisoners Committee (COPPES) asserts that not even the practices provided for under Decree 507 are respected by the Government of El Salvador.

"Despite the fact that Decree 507 establishes that 'the Security Forces have the obligation to remand the accused to the courts within 15 days of the detention', not even the practices provided for by the very decree are followed. Prisoners have been held up to 204 days in prison by the Security Forces without their being remanded to the respective courts.

Time in Detention by Security Forces & Army Prior to Assignment to Courts

Less than 15 days:	147	51-60 days:	8
15 days:	30	61-70 days:	15
16-25 days:	140	71-80 days:	4
26-30 days:	49	81-90 days:	4
31-40 days:	93	91-100 days:	2
41-50 days:	13	193 days:	1
51-60 days:	8	204 days:	1

Note: Those remanded to court during the period provided for by law represents 33.5% (186 prisoners), while 66.5% were remanded in a period longer than the one stipulated by Decree 507.

Decree 507 provides that 'the investigative phase of the proceedings will be secret; will not exceed 180 days; and will be without right to defense' (Art.7,par.1). This means..that the accused cannot intervene in the trial, offer witnesses or ask that certain documents be admitted as proof. Furthermore, the majority of the prisoners have been in detention longer than the period stipulated and unaware of their legal status.

Political Prisoners in Detention More Than 180 Days

1 - In detention since December 1978
37 - In detention since 1980
139 - In detention from January-September 1981
40 - In detention since October 1981 " (COPPES May 1982)

...One week before the March 28 Constituent Assembly Election, Bishop Rivera y Damas made a pastoral call for the return to enjoyment of constitutional guarantees.

> "I make a pastoral call..to all the parties in contention, whomever the winner of the majority may be..that they (1) assure that the anguish and pain of many families will come to an end through an amnesty offered to political prisoners and a clarification of the whereabouts of the disappeared; (2) that there be a return to the enjoyment of constitutional guarantees, which have been suspened by the State of Siege law; and that (3) there be a search for methods based on reason and dialogue before continuing the fratricidal war."
> (Bishop Rivera y Damas, Homily, March 21, 1982)

...More than three months following the March 28 elections, Bishop Rivera y Damas reiterated his appeal to the Constitutuent Assembly that it derrogate Decree 507, asserting that the decree legitimizes human rights violations.

> "The Constituent Assembly must also derrogate Decree 507 which by every indication violates human rights or gives a basis for legitimizing the violation of human rights."
> (Homily, July 4, 1982)

THE WHITE HOUSE ASSERTS THAT:

> "During May and June 1982, fourteen Christian Democratic Party (PDC) members and officials were murdered. These murders were condemned by a declaration of the Armed Forces, as well as by unanimous vote of the Salvadorean Constituent Assembly. Arrests were made in two of these cases. These actions by Salvadorean authorities are significant in that formerly crimes of this nature rarely resulted in arrests (147 Christian Democratic officials and members were killed during the Junta period with no notable success in prosecuting perpetrators.)" (p.6)

HOWEVER:

...The White House omitted reference to negative comments by the National Conciliation Party (PCN) before the vote to the effect that the Christian Democratic motion suggested involvement of Government authorities in the murders.

> "Given the situation, the Party presented a motion to the Constituent Assembly asking the High Command of the Armed Forces to carry out an investigation and calling for the end to this 'mass killing' that, if not stopped, will lead the country 'to a holocaust of violence without limit contrary to the interests of the reforms'..There was opposition from the PCN in the proceedings, 'since the motion in a hidden way would suggest that the crimes could be involving some authorities.' Nevertheless, the Assembly condemned the crimes and the 'new wave of violence.' A member of the PDC described the killings as part of a campaign of 'annihilation' against the party."
> (Proceso, No.66)

...Given the fact that the Christian Democratic Party was a major contender in the March elections and has important ties to both international Christian Democracy and the U.S. government, one might easily conclude that the significant aspect is that arrests have been made in only two of the fourteen cases. The passivity of the legal system is especially noteworthy when one considers that seven of those killed were electoral observers for the party.

...Rather than sharing the optimism that arrests in the two cases might open the way to greater respect for law, the Christian Democratic Party pointed to possible future difficulties for participation in the democratization process.

> "Following the assassination of eight of its members, the PDC issued a communique condemning the assassinations and accusing the perpetrators of 'having ties to military authorities and Civil Defense groups in the respective towns.' The PDC demanded that the government stop 'this spiral of violence' since in not 'demanding a real control and discipline in the different armed entitites and civil defense groups, a climate of violence and violation of human rights will be generated..which will not only bring down the image of the Government but will make impossible the participation of the citizenry in the democratization process.'"
> (Proceso, No. 66)

THE WHITE HOUSE ASSERTS THAT:

"Although abuses continue, there has been a demonstrable attempt on the part of government authorities to control forces which perpetrate them. These actions include efforts to bring justice to persons who have been involved in human rights abuses, especially acts of murder. The Embassy has been able to confirm that since January 1st, forty-seven members of the military forces and at least ten Civil Defense members have been arrested and confined for violent abuses of authority (murder, assault, rape)." (p.9)

HOWEVER:

...It is impossible to reach conclusions as to whether the above reported disciplinary actions constitute a change from past practices. Since no figures are given for the total number of politically-motivated violations committed by the Army and/or security forces and Civil Defense units, one does not know what percentages of the perpetrators have been brought to trial or disciplined. No such percentages are provided for the past certification period.

...Socorro Juridico, which used only signed declarations as the basis for its figures, found that for the period January 1, 1982 to May 7, 1982, some 1th politically-motivated killings were perpetrated by regular Army units alone. If one includes killings perpetrated by Combined Forces, Combined Security Forces, the National Guard, the Treasury Police and the National Police, the figure rises to some 1,200. The White House figure of 47 disciplinary actions can be considered against these figures.

...The White House does not indicate what percentage of the 47 detentions were related to political abuses and murders by the Armed Forces, and what percentage related to misconduct problems found in most armed forces and directed in a non-political fashion.

> For example, some 59 Salvadorean National Guardsmen implicated in murders, rapes and other crimes were dismissed. "The documentation given to Senators Leahy, Pell and Representative Murtha does not appear to deal with the kinds of political abuses and murders for which the government is often criticized. Rather, one official who accompanied the Congressional delegation here said, the case histories seem to show 'if you're a guardia what you do on Sunday is get drunk and you murder your neighbor.' In one case in September 1981, four Guardsmen at the Cerron Grande outpost near the town of San Martin got drunk at a beer stand, sodomized two young men, raped two young women, another woman and her daughter, then killed 3 of the young people and wounded the woman, according to the documentation. In another case, the two guardsmen abandoned their posts at the Electoral Commission here in the capital, got drunk at a house of prostitutes, drassed off one man, whom they killed and robbed. According to Western diplomatic sources here (in San Salvador), there has only been one known prosecution of anyone accused of killing a political figure since the October 1979 coup."
> (Washington Post, February 19, 1982)

THE WHITE HOUSE ASSERTS THAT:

"The attitude of the new President of El Salvador, Alvaro Magana, towards human rights was highlighted in his June 4th address. President Magana stated that his government's goals are pacification, democratization, confidence and security, economic recuperation, reforms and respect for human rights..As part of President Magana's call for pacification and respect for human rights, the Government of El Salvador is actively considering an amnesty program that will seek to reincorporate dissident elements into the political process, while guaranteeing their safety and security." (p.7)

HOWEVER:

...In mid-May, Alvaro Magana suggested that a reduction in the fighting would have to precede an improved human rights situation.

> Alvaro Magana said that "an improvement in the human rights situation in El Salvador would be obtained through the defeat of the rebels. 'When the conflict is reduced to proportions of lesser importance, the problem of human rights will also be reduced.'"
> (UPI, San Salvador, May 5, 1982)

...Declarations by the Armed Forces chief of staff, Col. Rafael Flores Lima, in mid-May indicate that the 'pacification' mentioned by Alvaro Magana is not to include dialogue with the opposition. Furthermore, he makes it clear that his institution would have a major voice in such matters.

> "'Dialogue or negotiations with the subversives has no reason to take place,' said Col. Rafael Flores Lima, chief of staff of the Armed Forces, in a press conference.'Referring to the pretentions of some Senators and Congresspersons of the United States, who last week said they would ask the government of President Reagan to maintain a dialogue between guerrillas and the Salvadorean government, the chief of staff said that 'there is nothing to dialogue about, much less negotiate, since the armed forces institution has spoken very clearly in other occasions on this subject.'
> (UPI, San Salvador, May 14, 1982)

...Talk of a 'pacification' or 'peace' plan has met with widely-differing interpretations among projected participants in its formulation.

> "We know that there are various points of view relating to divergent solutions for peace. We believe that the peace that the people await will not be achieved through imposition and repression. We do not want the peace of cemeteries. We believe that peace will come as a logical consequence of the struggle of our people against injustice and social discrimination."
> (Bishop Rivera y Damas, Homily, May 2, 1982)
>
> Constituent Assembly president, Roberto D'Aubuisson said that 'an amnesty law is being prepared so that subversives put down their arms and be given protection; those who do not join in this amnesty will have to be expelled by the Armed Forces.'
> (UPI, San Salvador, May 13, 1982)

...It is unclear what real impact an amnesty program could hope to have on public confidence in a climate of safety and security, when one simultaneously finds that a humanitarian aid worker not belonging to any opposition group is tortured

in the National Police headquarters in downtown San Salvador just weeks after the elections.

"The case in point involved a Salvadorean volunteer for the Green Cross, a leading humanitarian agency. The volunteer was arrested on suspicion of providing supplies to guerrillas. In fact, according to the volunteer, he had distributed medicines reveived through international channels to displaced persons in an open and above board fashion..In one torture session, the victim was strapped to a rotating wheel, similar in function to the medieval rack, causing great muscle strain and pain. In another torture, he was beaten severely and forced to inhale lime. In a third operation, which the torturers called 'the Carter,' in an ironic reference to former president Jimmy Carter, a champion of human rights, the victim was strung up by ropes tied to his hands and feet while severe pressure was applied to his testicles by means of a wire."
(Washington Post, July 26, 1982)

...The 'democratization' referred to by Alvaro Magana apparently does not envisage an end to the State of Siege. Lifted during the electoral campaign in its application to political party activity, the State of Siege was reinstated on April 20, 1982. In effect since March 6, 1980, the State of Siege restricts freedom to enter and leave the country; rights of free expression and difusion of thought, as well as the inviolability of correspondence.

"On April 20, through Decree 1089, the Junta reinstated the State of Siege, considering that 'the electoral period is over' and 'the same reasons' which gave rise to this measure 'continue' at the present."
(Proceso, No.62)

THE WHITE HOUSE ASSERTS THAT:

"Although there has been no evidence to support periodic guerrilla allegations of large-scale massacres allegedly committed by government forces, reports of torture and execution of prisoners and the participation of individual members of the security forces in right wing terrorist activity continue, and in some cases are credible. This is particularly true at lower levels of the military hierarchy and the civil defense." (p.8)

HOWEVER:

...The White House holds that 'periodic guerrilla allegations' of 'large-scale massacres' are unfounded. However, no incidents of mass killings, dates or figures are provided the reader for comparison with reports from Salvadoran rights groups, international organizations or the FMLN. Is the reader to infer that no 'large-scale' massacres occurred, that all guerrilla allegations of 'large-scale' massacres are likely to be unfounded, or that efforts have been made by the U.S. Embassy officials to verify evidence presented regarding reported massacres?

"Top government officials in El Salvador meanwhile have issued a new account of a massacre last Sunday that witnesses attributed to uniformed troops in the capital's slum of San Antonio Abad. Both civilian President Duarte and Defense Minister Garcia have offered reporters the new version that at least nine people killed in that action were attending a meeting after midnight and fired on troops who investigated. The official Army communique issued Monday failed to mention any such circumstances, saying the military was successful in rooting out various subversive 'safe-houses.'"
Washington Post, February 5, 1982.

"A U.S. Embassy spokesman said today that American officials were investigating charges that government troops killed 110 civilians in three villages in eastern El Salvador..In El Campanario, a village of 20-30 now-abandoned adobe huts, the peasants said soldiers dragged 74 people from the United Pentecostal Church..They put them into a column in front of the Church and beheaded them.. The peasants and guerrillas said the victims at El Campanario were all evangelists who were not involved with rebel operating in the area."
New York Times, March 8, 1982)

"A reporter who was not present when the peasants were killed cannot know exactly what happened in a village where the people say they had helped both sides in this country's civil war. Accounts by survivors, relatives and guerrillas vary in some details, such as the time that the soldiers arrived--it was between 5:30am and 6:30am Sunday--how many there were, and how much support the villagers had given to the guerrillas. But all agreed that it was soldiers who did the killing, that most of the victims were taken out of their houses and shot and that the victims were unarmed. Responding to early reports of the deaths, a Salvadoran military spokesman said, 'It's a lie.'"
New York Times, April 22, 1982)

...No distinction is made between 'large-scale' and some other type of massacre. Nevertheless, Ambassador Hinton led journalists to believe that indiscriminate, mass killings of unarmed Salvadorans continue.

"You gotta understand something about these operations. The guerrillas operate out of camps. They have their women, their kids, their old people, in those camps. You've seen--I'm sure--the pictures in the New York Times, 12-year-olds carrying rifles..Now it's tough. You go into a camp, and you're gonna shot at.

you know. So they shoot back and women and kids get killed. And what's really worse, and unjustified, is you sometimes get units out of control. And after the battle, they kill innocent civilians. It shouldn't happen. But it does. But it's happening less and less."
(Press Conference, Amb. Hinton, State Department, June 11, 1982)

...The White House suggests that "in some cases..reports of torture and execution of prisoners" are "credible." Since no Salvadorean government has refuted the casework presented by Socorro Juridico and its successor, Tutela Legal, regarding politically-motivated killings, the burden is on those preparing the certification to offer evidence contradicting the casework findings.

...It is unclear how the "credibility" of reports by other groups is established, since the U.S. Embassy human rights methodology relies on newspaper reports and has no mentioned mechanism for verifying documentation systems based on casework. (see methodology)

...The assertion leaves the impression that the participation of security forces in right wing terrorist activity is an individual act isolated from the normal functioning of the security forces. This view was contradicted in testimony by a Salvadorean Army captain (now in exile) in April 1981 before a House Appropriations Subcommittee.

> Captain Fiallos testified that "it is a grievous error to believe that the forces of the extreme right, or the so-called 'death squads' operate independent of the security forces. The simple truth of the matter is that the death squads are made up of members of the security forces and acts of terrorism credited to these squads, such as political assassinations, kidnappings, and indiscriminate murder are, in fact, planned by high-ranking military officers and carried out by members of the security forces."

...The statement leaves the impression that higher level Salvadorean military are seldom involved in or cognizant of torture or execution of prisoners. A recent case illustrates the condoning of torture at the highest levels. While in detention in a San Salvador prison as a political prisoner, a son of Jose Antonio Morales Ehrlich, a Christian Democratic leader, was tortured by the Treasury police. Contradicting a public statement to that effect by the father, the Treasury police Directorate issued a declaration disclaiming any wrongdoing, and asserting that "it has always been the norm for the Treasury Police to act lawfully." The declaration was made three days before the elections.

> "I walked up to the officer who had called out my name. He was joint commander of the operation with Moran and he beat me in the stomach and half-strangled me, so that I was left without breath..I warned that I suffered from circulatory problems and that I also had a hematomain the chest..They lifted my arms in the a.r, by tugging on my thumbs, which had been previously tortured, and they beat my back. I could scarely breathe..The pain in my chest was so great and my general condition so poor..that I had a convulsive fit and half-fainted. They decided to take me to the infirmiry."
> (Testimony by Jose Antonio Morales Carbonell to the Salvadorean Human Rights Commission, Mexico City, May 13, 1982)

> "With absolute integrity, we state before the Salvadorean people that at no time were any of the prisoners at the detention center mistreated verbally, physically or morally. For this reason, we energetically reject any accusation since it has always been the norm for the Treasury Police to act lawfully."
> (Communique by the Treasury Police Directorate, El Diario de Hoy, March 25, 1982)

THE WHITE HOUSE ASSERTS THAT:

> "Human rights problems concerning the military have been exacerbated by guerrilla tactics which have resulted in the deaths of non-combatants. The guerrillas routinely travel with civilians who provide logistical support for their units. When the guerrillas are attacked by government forces, the ensuing hostilities often produce civilian casualties." (p.8)

HOWEVER:

...The White House reaffirms the "spill-over" theory: that persons not bearing arms, regardless of age or sex, are considered necessary targets of Salvadorean counter-insurgency operations if they are found in or near FMLN-controlled zones.

> "But what of the violence? If the government of El Salvador is filled with good men--with democrats and reformers--why is there continuing violence against the civilian population from the government side? The answer is that, first, the insurgency has penetrated the population and attempts to hide itself within it--so that fighting violent insurgents spills over into society."
> (Ambassador Jeane Kirkpatrick, "Human Rights in El Salvador," Statement in the Third Committee, December 1, 1981)

...According to the Commander of the 1st Infantry Brigade, children under 12 years of age found in zones controlled by the guerrillas are 'extremists.' (Proceso, No.68)

...In urging more 'professional' behavior by the Armed Forces in its military operations, Bishop Rivera y Damas distinguished between the 'non-violent civilian population' and those fighting the war. This distinction is not found in the certification statement, except very occasionally.

> "It is urgent to take these emergency measures: (d) that the Armed Forces in its 'clean-up' operations proceed professionally, taking measures, avoiding arbitrary behavior, and guaranteeing the physical integrity of the nonviolent civilian population."

... "General Garcia said that the entire population within the guerrilla-held territory was committed to the guerrilla cause and no one could be considered a civilian. Reporters who visited the Guazapa guerrilla stronghold shortly before the Government offensive began saw many children and women living on the slopes of the settlement of Palo Grande."
(The Guardian, 1-10 March 1982)

THE WHITE HOUSE ASSERTS THAT:

"The National Police have recently redrafted an exhaustive guide to counterinsurgency procedures, which includes section on the defensive use of arms, rules of engagement, and respect for human rights." (p.9)

HOWEVER:

...El Salvador has received intelligence and counter-intelligence advice from Chile. It is unclear whether the Chilean military has assisted in the preparation of counter-insurgency procedure guides. If this is the case, their potential impact on increased respect for human rights will certainly be open to question.

> "The Chief of Staff of the Armed Forces, Col. Flores Lima, admitted during a press conference that the war in our country 'is not over.' ..He stated that the Salvadorean Army received military assistance from Argentina, Chile, Colombia and Venezuela. The Chilean assistance includes intelligence and counter-intelligence advice." (Proceso, No.65)

...El Salvador has received assistance from 'a handful' of Argentine military personnel, according to Assistant Secretary of State, Thomas Enders, in July 15th testimony before Senator Kasten's Subcommittee on Foreign Operations. Enders indicated that he "did not know" if Argentine military personnel had provided counter-insurgency training.

...The National Police "procedures guide" has been redrafted while abuses by this security force continue to be reported, as in the case below. Socorro Juridico, whose figures were based on personal testimony alone, and its successor, Tutela Legal, which has modified the methodology somewhat, have documentation on at least 43 detentions, disappearances or summary executions by the National Police during the certification period. No correlation is described between the redrafting of the guide and a change in behavior by the National Police.

THE WHITE HOUSE ASSERTS THAT:

"The Civil Defense units..have also been a principal source of institutional violence." (p.8)

HOWEVER:

...No evidence is provided to substantiate this assertion. Rather, casework indicates that a principal source of institutional violence has been the Army and the three Security Forces, with participation of Civil Defense units in combined operations. Documentation by Socorro Juridico showed that the Army and three Security Forces were responsible for at least 7,396 noncombatants deaths in 1981. This same casework showed only 11 deaths in 1981 directly attributed to the Civil Defense units working on their own. For the January to April 1982 period, their records showed Civil Defense unit responsibility for 55 of 2,334 recorded noncombatant deaths. The figure for killings of noncombatants by Civil Defense units may be well higher, since 967 deaths are not directly attributed; but documentation available from casework would not lead to the above assertion that the units are a principal source.

THE WHITE HOUSE ASSERTS THAT:

"The International Committee of the Red Cross gives instructions to the security forces on respect for human rights in armed conflict as defined in the Geneva Convention." (p.7)

HOWEVER:

...The central issue is not the providing of instruction by the ICRC to the Security Forces but compliance by the Salvadorean Security Forces, Army and other military units, as well as by the FMLN. Recent remarks of Ambassador Hinton in mid-June indicate that the Salvadorean government has not corrected its failure to follow ICRC instructions.

> "The war looks a little better. Violence, senseless violence and torture from both sides, continues. Unfortunately, neither the Salvadorean armed forces nor the guerrillas take very many prisoners, unfortunately." (Press Conference, Amb. Hinton, State Department, June 11, 1982)

...The above reference to the ICRC does not mention this organization's discontent in its dealings with the Salvadorean government (nor the Reagan Administration fear that the Committee might leave the country).

> "The Government of El Salvador should be persuaded to work cooperatively with the ICRC. The ICRC has made it clear that it is prepared to pull out of El Salvador if its concerns are not met. ICRC departure would be a severe blow to our efforts to maintain Congressional support." (Classified State Department Cable, circulated by CAMPO, Boston)

THE WHITE HOUSE ASSERTS THAT:

"The Apostolic Administrator has himself continued to speak out for the Church to condemn human rights violations and violence from both sides, consistently putting forth a pleas for peaceful solutions to El Salvador's conflict." (p.7)

HOWEVER:

...This is an accurate statement; however, it does not give a complete sense of Bishop Rivera y Damas' explanations on human rights. The White House does not go on to quote Bishop Rivera y Damas when he described the rights to organize and to practice one's religious faith as inalienable rights, a concept that is not expressed in the certification statement. In this statement by the Reagan Administration, no rights are presented as inalienable, as in the OAS Inter-American Commission on Human Rights reference to El Salvador in its 1980-1981 annual report: "Under no circumstances can governments use illegal summary executions to restore public order."

> "Internationally, we have heard the Pope insisting on the rights to organize and to practice one's religious faith. Of course, the reference is concrete in reference to the situation of Poland, his homeland. But the rights whose protection he calls for in the name of God, of the Gospel and of the Church's social doctrine are inalienable rights of all men in whatever country." (Homily, January 10, 1982)

Mr. PATTERSON. Also without objection, the members of the subcommittee will have 15 days to submit written questions through the subcommittee staff to any of the three witnesses. Is that acceptable to you two gentlemen, to receive further questions in writing from members that may not have been here?

Mr. MORRELL. Yes.

Mr. DUKE. Fine.

Mr. PATTERSON. Ambassador, the IMF projects a continuing decline in continued savings and investment in El Salvador this year. Do you accept this pessimistic assessment?

Mr. DUKE. It is not exactly my field, but going back to my talks and conversations in December of 1981, I would tend to accept that, yes.

Mr. PATTERSON. Would you expect business would regain enough confidence to resume investing, assuming that assessment?

Mr. DUKE. That is equally difficult for me to project because you have to assess the political situation, the economic effects of land reform, and the other social reforms, the diminution of human rights violations, the de-escalation of the guerrilla opposition efforts, but when you consider the progress that has been made in the past year and the slow building of the institutions at the state, the effects of the election and certain positive indications of development, I think there is reason for cautious optimism.

Mr. PATTERSON. In your testimony you indicated that you hope the U.S. representatives to the IMF would see to it that the substantial portion of the loan is allocated to land reform and to support agrarian reform in Latin America and particularly in El Salvador in this case.

However, it has been primarily the role of the development banks, the World Bank and the IDB, to finance these sort of sectoral programs.

The IMF has generally concentrated on the broader, macroeconomic issues.

I do not know if you are suggesting a change in their policy or just encouraging it.

Mr. DUKE. I am just encouraging consideration of it.

Mr. PATTERSON. Mr. Morrell, I noted your finding here that recent developments suggesting the 1981 compensatory financing facility loan was erroneously approved.

I guess I would like to request the administration representative—is he here? Would you like to respond to that finding?

Mr. MYER. I am Ronald Myer, U.S. Treasury Department. I think I would have to check with Mr. Erb and have Mr. Erb respond to that question.

Mr. PATTERSON. Mr. Morrell, the existing legislation requires the United States to urge that standbys take into account the impact on employment and basic needs, as I am sure you know.

Do you think this standby is satisfactory from that point of view? From the point of view that they are taking into account employment and basic needs in the country?

Mr. MORRELL. The decisionmaking related to this program that I am aware of makes no allowance for basic human needs objectives, and I don't think this is stated to be part of the IMF program.

I think in the final analysis you will find the program deficient in meeting that objective.

Mr. PATTERSON. I am not sure we will have any returning members, but I have given them the opportunity to ask additional questions.

Do either of you have a concluding statement or comment in regard to any of the testimony of any of the other witnesses whom you wish to interact with at this point?

Mr. MORRELL. I would like to amplify slightly my statement about the fate of the first compensatory financing facility drawing, since we have had 1 year now to assess whether the minimum is, in fact, being met.

The level attained in the first postshortfall year ending in May 1982, was 8560 million special drawing rights. Under the formula, El Salvador would have to reach 814.1 SDR's for the year ending in May 1983.

It is unlikely to do so, extremely unlikely, but there is no remedy. The IMF cannot make a country pay back the loans early.

Mr. PATTERSON. If they make a finding later down the line that they aren't complying—aren't improving, they can't call back the money already loaned?

Mr. MORRELL. There is no remedy.

As Mr. Erb mentioned, the staff reported to the Board that El Salvador was within the minimum, and that the drawing had, in fact, been warranted.

That report was made simply as a courtesy by the staff to the Board. It is not required because even if you are not within the minimum, you don't have to pay back early.

However, more recent figures that have been published by the IMF make it clear that it is extremely unlikely that El Salvador will, in fact, meet the minimum.

Mr. PATTERSON. Mr. Duke?

Mr. DUKE. Congressman, I wonder if I could conclude?

Mr. PATTERSON. Yes.

Mr. DUKE. I would like to refer to the communication, the statement made in El Salvador on August 2, 1982, by the representatives of the UPD, the popular democratic unity forces of workers and peasants in which they state in this regard:

> On behalf of more than a half million Salvadoran workers from the urban and rural sectors, they insist that the elected government of El Salvador seek to secure from national and international sources the funding needed to speed up the economic development of the country which will ultimately be a benefit to the Salvadoran workers and campesinos.

Mr. PATTERSON. That is in this four-page statement?

Mr. DUKE. Yes. Page 3 of their statement.

Mr. PATTERSON. That is sort of a trickle-down benefit to the peasants, right?

Mr. DUKE. That is the way they interpret it.

Mr. PATTERSON. I am sure it would be. Any economic development of the country as a whole would certainly ultimately be a benefit to the Salvadoran workers and campesinos as stated. This will be in the record too.

I assume it was not read, but attached to your statement?

Mr. DUKE. That is right, sir.

Mr. PATTERSON. That will be put in the record.

I think this has been a very good hearing, a very important hearing; one about a very troubled part of the world.

In my judgment at least, second to the Middle East, is the Central American-Latin American issue in terms of not only foreign policy questions, but as an area where great turmoil exists.

To me this is one of the top two or three areas of concern that the United States, for its own national security, ought to probe and make sure that we are doing the kinds of things that, in fact, bring about responsible governments and encourage democratic processes in those countries and political stability which will ultimately lead to the kind of peace I think we all seek as opposed to continuing conflicts between various countries.

The IMF program doesn't really have a provision for review on human rights. I know we passed one in the House and it didn't pass the Senate a few years ago. I think there is still considerable interest in the House. I would hope there is too in the Senate.

As Mr. Morrell said, the system is already politicized. I frankly think a majority of Members of Congress, whichever political side of the spectrum they are on, do believe there is politics played in any environment that deals with the economic and political benefits to our country or to any other country in the international financial institution system.

In particular, in El Salvador, which is a very central area, not only in Central America, but in terms of our policy I think it is important that we closely examine this particular loan. While Congress doesn't have any jurisdiction at the present time to stop the loan—it has, in fact, taken place—I think this hearing does call attention to the fact and require a justification and the reasoning that goes behind making such loans.

Again I thank our witnesses who are here for their participation. I look forward to consulting closely with the administration with regard to the various issues that have come up this morning in the hearing.

I think these hearings have produced—not only this one today, but others in the past have produced a positive relationship between the administration and the Congress and will go toward building greater confidence on the part of the American people in terms of supporting what is not a very popular subject, foreign aid in the general sense, even though it may be through the World Bank or IMF or one of the other regional banks.

Your testimony is invaluable, I think, to making that a process one that is democratic, open, and positive.

I want to thank you again for putting up with what were not the best of circumstances as far as our interruptions with the votes this morning.

At this time, on behalf of Chairman Neal and the other members of the subcommittee, the subcommittee is adjourned.

[Whereupon, at 12:15 p.m., the subcommittee was adjourned, subject to the call of the Chair.]